



Financial Statements  
June 30, 2013 and 2012

# Pace Fund

## PACE FUND

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## 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 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 the PACE Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 respective financial position of the PACE Fund, as of June 30, 2013, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the 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 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 or 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 PACE Fund as of and for the year ended June 30, 2012, were audited by other auditors whose report dated August 27, 2012, 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 4 through 8 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 inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the PACE Fund's financial statements. The combining balance sheet and combining statement of revenues, expenses, and changes in fund balance as of and for the year ended June 30, 2013 are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining balance sheet and the combining statement of revenues, expenses, and changes in fund balance as of and for the year ended June 30, 2013 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. Such 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 combining balance sheet and the combining statement of revenues, expenses, and changes in fund balance as of and for the year ended June 30, 2013 are fairly stated, in all material respects, in relation to the financial statements as a whole.

**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 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 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* in considering the PACE Fund's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota  
October 15, 2013

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

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The management's discussion and analysis of the PACE Fund's financial performance provides an overview of the 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 PACE Fund.

**FINANCIAL HIGHLIGHTS:**

The purpose of the PACE (Partnership in Assisting Community Expansion) Fund is to assist North Dakota communities in expanding their economic base. The program is available to all cities and counties throughout North Dakota for qualified projects. These loans are made by a lead financial institution in participation with Bank of North Dakota.

The 2011 Legislature approved the following appropriations and transfers from the above identified PACE programs during the biennium July 1, 2011 through June 30, 2013:

PACE	\$6,000,000	Legislative Appropriation
	(3,000,000)	Transfer to Flex PACE
	24,032	Carry Forward from Previous Allocation
	(200,000)	Transfer to Flex PACE
	<u>1,284,865</u>	Adjustments on Defaulted or Prepaid PACE Loans
	\$4,108,897	
Flex	\$3,000,000	Legislative Appropriation – Transfer from PACE
	759,233	Carry Forward from Previous Allocation
	3,000,000	Transfer from Beginning Farmer through Ag PACE
	1,000,000	Transfer from AG PACE
	1,000,000	Transfer from Biofuels PACE
	200,000	Transfer from PACE
	300,000	Transfer from Beginning Farmer
	<u>310,365</u>	Adjustments on Defaulted or Prepaid Flex PACE Loans
	\$9,569,598	
Biofuels	\$1,000,000	Legislative Appropriation
	1,206,530	Carry Forward from Previous Allocation
	(1,000,000)	Transfer to Flex PACE
	<u>33,871</u>	Adjustments on Defaulted or Prepaid Biofuels Loans
	\$1,240,401	

Of the \$6 million PACE appropriation, \$3 million was earmarked for Flex PACE for the 2011-2013 biennium.

Additional transfers to Flex PACE were made to throughout the biennium, including \$5,000,000 in February 2012 (\$3,000,000 from Beginning Farmer through Ag PACE, \$1,000,000 from Ag PACE, and \$1,000,000 from Biofuels PACE), \$200,000 in April 2013 from PACE, and \$300,000 in June 2013 from Beginning Farmer.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following is a recap of the PACE Fund activity for fiscal years ended June 30, 2013, 2012 and 2011:

	PACE	Flex PACE	BioFuels PACE
Current number of loans	186	267	38
Total outstanding principal	\$ 37,960,702	\$ 64,414,240	\$ 5,676,398
Current remaining buydown to be paid by Fund	\$ -	\$ -	\$ -
Loans funded in year ended June 30, 2011	14	62	6
Original loan amount funded	\$ 10,794,621	\$ 31,858,518	\$ 1,737,500
Buydown	\$ 1,303,692	\$ 3,587,956	\$ 645,467
Buydown not disbursed	\$ 315,413	\$ 735,989	\$ -
Loans funded in year ended June 30, 2012	9	53	6
Original loan amount funded	\$ 11,806,942	\$ 25,582,986	\$ 1,441,200
Buydown	\$ 1,487,422	\$ 3,177,566	\$ 638,860
Buydown not disbursed	\$ -	\$ 288,656	\$ -
Loans funded in year ended June 30, 2013	16	60	3
Original loan amount funded	\$ 22,590,626	\$ 47,350,192	\$ 693,000
Buydown	\$ 2,150,678	\$ 3,874,731	\$ 340,330
Buydown not disbursed	\$ 172,049	\$ 497,973	\$ -
Loans pending as of June 30, 2013	1	18	-
Loan commitments outstanding	\$ 1,200,000	\$ 20,579,054	\$ -
Buydown	\$ 205,190	\$ 1,617,669	\$ -
Available buydown as of June 30, 2013	\$ 93,557	\$ 113,003	\$ 261,211

### REQUIRED FINANCIAL STATEMENTS:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONDENSED BALANCE SHEETS  
JUNE 30, 2013, 2012 AND 2011

	(In Thousands)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Cash deposits	<u>\$ 24,342</u>	<u>\$ 28,868</u>	<u>\$ 21,812</u>
<b>LIABILITIES</b>			
Accrued interest payable	<u>\$ 416</u>	<u>\$ 349</u>	<u>\$ 305</u>
<b>FUND BALANCE</b>	<u>23,926</u>	<u>28,519</u>	<u>21,507</u>
Total liabilities and fund balance	<u>\$ 24,342</u>	<u>\$ 28,868</u>	<u>\$ 21,812</u>

*Fund Balance*

Fund balance represents funds available to the PACE program. Fund balance decreased by \$4,593 or a 16.1% decrease from 2012 to 2013 primarily due to an increase in Flex PACE buydown interest expenditures. Fund balance increased by \$7,012 or a 32.6% increase from 2011 to 2012 primarily due to a net operating transfer of \$11 million.

## 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	\$ 217	\$ 250	\$ 261
EXPENDITURES - Buydown interest	<u>5,110</u>	<u>4,238</u>	<u>3,669</u>
EXPENDITURES OVER REVENUES	(4,893)	(3,988)	(3,408)
OPERATING TRANSFER IN / OUT	<u>300</u>	<u>11,000</u>	<u>400</u>
NET CHANGE IN FUND BALANCE	(4,593)	7,012	(3,008)
FUND BALANCE, BEGINNING OF YEAR	<u>28,519</u>	<u>21,507</u>	<u>24,515</u>
FUND BALANCE, END OF YEAR	<u>\$ 23,926</u>	<u>\$ 28,519</u>	<u>\$ 21,507</u>

#### *Expenses*

Buydown interest expense is the Fund's share of the periodic payments made to the trustee to cover the interest rate buydown. Interest expense increased by \$872 or a 20.6% increase from 2012 to 2013 primarily due to an increase in Flex PACE activity. Interest expense increased by \$569 or a 15.5% increase from 2011 to 2012 primarily due to an increase in Flex PACE activity.

#### *Operating Transfers In/Out*

During the year ended June 30, 2012, the legislature appropriated \$6,000,000 to PACE and \$1,000,000 to BioFuels PACE for the 2011 – 2013 Biennium.

During the year ended June 30, 2012, the Ag PACE Loan Program transferred \$4,000,000 to the Flex PACE Program. The BioFuels PACE Loan Program transferred \$1,000,000 to the Flex PACE Program.

During the year ended June 30, 2012, the PACE Loan Program transferred \$3,000,000 to the Flex PACE Program.

During the year ended June 30, 2013, the PACE Loan Program transferred \$200,000 to the Flex PACE Program. The Beginning Farmer Revolving Loan Fund transferred \$300,000 to the Flex PACE Program.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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### ECONOMIC FACTORS AND FUTURE OUTLOOK

The 2013 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$28,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$2,000,000 to the Biofuels PACE fund. The demand for these funds is projected to increase in the regular Flex PACE loan program and Flex PACE Affordable Housing loan program.

The 2013 North Dakota Legislature passed House Bill 1079 that changed the PACE Loan Program as follows: 1) Expanded the Flex PACE Affordable Housing Loan Program from oil and gas producing counties to statewide. 2) Allows direct cash, loans, equity investments, land, property, or infrastructure to count toward the community's funding of its portion of the buydown. 3) Increased the maximum amount from the fund in the interest rate buydown from \$300,000 to \$500,000.

### CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the PACE Fund's finances and to demonstrate the 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.

**PACE FUND**  
**BALANCE SHEETS**  
**JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	<u>\$ 24,342,143</u>	<u>\$ 28,868,318</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>CURRENT LIABILITIES</b>		
Accrued interest payable	<u>\$ 415,649</u>	<u>\$ 349,429</u>
<b>FUND BALANCE</b>		
Committed for interest buydown	23,155,592	19,310,323
Committed for future interest buydown	<u>770,902</u>	<u>9,208,566</u>
Total fund balance	<u>23,926,494</u>	<u>28,518,889</u>
Total liabilities and fund balance	<u>\$ 24,342,143</u>	<u>\$ 28,868,318</u>

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

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	<u>2013</u>	<u>2012</u>
REVENUES		
Interest income	\$ 217,375	\$ 249,616
EXPENDITURES		
Buydown interest	<u>5,109,770</u>	<u>4,238,005</u>
EXPENDITURES OVER REVENUES	(4,892,395)	(3,988,389)
OTHER FINANCING SOURCES (USES)		
Operating transfer in	<u>300,000</u>	<u>11,000,000</u>
NET CHANGE IN FUND BALANCE	(4,592,395)	7,011,611
FUND BALANCE, BEGINNING OF YEAR	<u>28,518,889</u>	<u>21,507,278</u>
FUND BALANCE, END OF YEAR	<u>\$ 23,926,494</u>	<u>\$ 28,518,889</u>

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09.14 of the North Dakota Century Code (NDCC) established the Partnership in Assisting Community Expansion (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 PACE Fund. The purpose of the 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 loans. If the lenders approve the loan and there is evidence of the community's commitment and ability to fund its portion of the buydown, the fund's participation in the buydown is approved as part of BND's loan approval process.

The PACE Fund programs recognize 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, the community (if required) and the Bank of North Dakota on behalf of the PACE Fund. The PACE Fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of 5% and may not be less than 1%.

*PACE Program*

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank of North Dakota for participation from the PACE Fund. The funds for the community's portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the fund in the interest rate buydown may not exceed \$300,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

*Flex PACE Program*

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. The maximum buydown amount was increased from \$300,000 per borrower in any biennium to \$500,000 on April 10, 2013. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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### *Biofuels PACE Program*

Biofuels is established in N.D.C.C 17-03 to provide interest buy-down to qualified North Dakota businesses which are defined as biodiesel and ethanol production facilities, and livestock operations. The maximum interest buy-down per borrower for each eligible use is \$500,000 for a biodiesel or ethanol project, and \$250,000 for a livestock operation. The Biofuels PACE Loan Program does not require a community interest buy down match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

### *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 PACE Fund should include all component units over which the 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 PACE Fund.

Based on the criteria of GASB Statement No. 61, no organizations were determined to be part of the reporting entity. The 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 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 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.

### *Credit Related Financial Instruments*

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

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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### *Fund Balance Classification*

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 PACE Fund have been specifically committed for use in satisfying those contractual requirements.

### **NOTE 2 - DEPOSITS**

The carrying value and bank balance of the PACE Fund’s cash deposits at June 30, 2013 and 2012, was \$24,342,143 and \$28,868,318, 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 PACE 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 PACE Fund does not have a formal policy that limits custodial credit risk for deposits.

### **NOTE 3 – RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENTS**

During the year ended June 30, 2013, the PACE Loan Program transferred \$200,000 to the Flex PACE Program (April 2013). In June 2013, the Beginning Farmer Revolving Loan Fund (an enterprise fund of the State of North Dakota) transferred \$300,000 to the Flex PACE Program.

During the year ended June 30, 2012, the Ag PACE Loan Program transferred \$4,000,000 to the Flex PACE Program (February 2012). In February 2012, the BioFuels PACE Program transferred \$1,000,000 to the Flex PACE Loan Program. In August 2011, the PACE Loan Program transferred \$3,000,000 to the Flex PACE Loan Program.

The PACE Fund is supervised and administered by the Bank of North Dakota (an enterprise fund of the State of North Dakota). All cash accounts are deposited in the Bank of North Dakota. The Bank of North Dakota pays interest to the PACE Fund on monies that have been disbursed to the funding agency. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the PACE Fund on the cash accounts held at the Bank of North Dakota that have not been disbursed to the funding agency. Interest buydowns amortized into interest expense totaled \$5,109,770 and \$4,238,005 for the years ended June 30, 2013 and 2012, respectively.

The 2011 North Dakota Legislature passed House Bill 1014 that provides an appropriation of \$6,000,000 from the North Dakota General Fund to the PACE Loan Program and an appropriation of \$1,000,000 for the Biofuels PACE Program during the biennium beginning July 1, 2011 and ending June 30, 2013, which were received during the year ended June 30, 2012.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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The 2013 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$28,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$2,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2013, and ending June 30, 2015. The demand for these funds is projected to increase in the regular Flex PACE loan program and Flex PACE Affordable Housing loan program. Subsequent to June 30, 2013 and through the report date, \$2,800,000 has been received from the Bank of North Dakota.

The 2013 North Dakota Legislature passed House Bill 1079 that changed the PACE Loan Program effective from April 10, 2013 through June 30, 2015 as follows: 1) Expanded the Flex PACE Affordable Housing Loan Program from oil and gas producing counties to statewide. 2) Allows direct cash, loans, equity investments, land, property, or infrastructure to count toward the community's funding of its portion of the buydown. 3) Increased the maximum amount from the fund in the interest rate buydown from \$300,000 to \$500,000.

### **NOTE 4 - RISK MANAGEMENT**

The PACE Fund is exposed to various risks of loss related to torts and errors and omissions. The 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 PACE 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.



Supplementary Information  
June 30, 2013 and 2012

## Pace Fund

**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2013**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash deposits at the Bank of North Dakota	\$ 7,747,548	\$ 13,870,021	\$ 2,724,574	\$ 24,342,143
Total assets	<u>\$ 7,747,548</u>	<u>\$ 13,870,021</u>	<u>\$ 2,724,574</u>	<u>\$ 24,342,143</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Accrued interest payable	\$ 122,866	\$ 261,314	\$ 31,469	\$ 415,649
Total liabilities	<u>122,866</u>	<u>261,314</u>	<u>31,469</u>	<u>415,649</u>
<b>FUND BALANCE</b>				
Committed for legally contracted interest buydowns	7,459,463	13,232,766	2,463,363	23,155,592
Committed for future interest buydowns	<u>165,219</u>	<u>375,941</u>	<u>229,742</u>	<u>770,902</u>
Total fund balance	<u>7,624,682</u>	<u>13,608,707</u>	<u>2,693,105</u>	<u>23,926,494</u>
Total liabilities and fund balance	<u>\$ 7,747,548</u>	<u>\$ 13,870,021</u>	<u>\$ 2,724,574</u>	<u>\$ 24,342,143</u>

**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2012**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash deposits at the Bank of North Dakota	<u>\$ 9,308,448</u>	<u>\$ 16,401,897</u>	<u>\$ 3,157,973</u>	<u>\$ 28,868,318</u>
Total assets	<u>\$ 9,308,448</u>	<u>\$ 16,401,897</u>	<u>\$ 3,157,973</u>	<u>\$ 28,868,318</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Accrued interest payable	<u>\$ 143,964</u>	<u>\$ 168,670</u>	<u>\$ 36,795</u>	<u>\$ 349,429</u>
<b>FUND BALANCE</b>				
Committed for legally contracted interest buydowns	3,548,918	12,986,021	2,775,384	19,310,323
Committed for future interest buydowns	<u>5,615,566</u>	<u>3,247,206</u>	<u>345,794</u>	<u>9,208,566</u>
Total fund balance	<u>9,164,484</u>	<u>16,233,227</u>	<u>3,121,178</u>	<u>28,518,889</u>
Total liabilities and fund balance	<u>\$ 9,308,448</u>	<u>\$ 16,401,897</u>	<u>\$ 3,157,973</u>	<u>\$ 28,868,318</u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2013**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 113,487	\$ 103,888	\$ -	\$ -	\$ 217,375
EXPENDITURES					
Buydown interest	<u>1,453,289</u>	<u>3,228,408</u>	<u>428,073</u>	<u>-</u>	<u>5,109,770</u>
EXPENDITURES OVER REVENUES	(1,339,802)	(3,124,520)	(428,073)	-	(4,892,395)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	-	500,000	-	(200,000)	300,000
Operating transfer out	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(1,539,802)	(2,624,520)	(428,073)	-	(4,592,395)
FUND BALANCE, BEGINNING OF YEAR	<u>9,164,484</u>	<u>16,233,227</u>	<u>3,121,178</u>	<u>-</u>	<u>28,518,889</u>
FUND BALANCE, END OF YEAR	<u>\$ 7,624,682</u>	<u>\$ 13,608,707</u>	<u>\$ 2,693,105</u>	<u>\$ -</u>	<u>\$ 23,926,494</u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2012**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 147,267	\$ 102,349	\$ -	\$ -	\$ 249,616
EXPENDITURES					
Buydown interest	<u>1,719,182</u>	<u>2,082,304</u>	<u>436,519</u>	<u>-</u>	<u>4,238,005</u>
EXPENDITURES OVER REVENUES	(1,571,915)	(1,979,955)	(436,519)	-	(3,988,389)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	6,000,000	8,000,000	1,000,000	(4,000,000)	11,000,000
Operating transfer out	<u>(3,000,000)</u>	<u>-</u>	<u>(1,000,000)</u>	<u>4,000,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,428,085	6,020,045	(436,519)	-	7,011,611
FUND BALANCE, BEGINNING OF YEAR	<u>7,736,399</u>	<u>10,213,182</u>	<u>3,557,697</u>	<u>-</u>	<u>21,507,278</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,164,484</u>	<u>\$ 16,233,227</u>	<u>\$ 3,121,178</u>	<u>\$ -</u>	<u>\$ 28,518,889</u>



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**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 the 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 the 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 the 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 the PACE Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 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 statues, laws, rules, 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 findings and recommendations included in prior year 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 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 to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

None.

3. Identify any significant audit adjustments.

None.

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

None.

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

Based on the audit procedures performed, the 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 and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

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 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 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.

### **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the North Dakota Industrial Commission, Bank of North Dakota Advisory Board and management of the PACE Fund, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Eide Bailly LLP*

Aberdeen, South Dakota  
October 15, 2013