



Financial Statements
June 30, 2019 and 2018
PACE Fund

PACE FUND

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Independent Auditor's Report

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the PACE Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the 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 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 audits 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 Fund'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 Fund'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 Fund, as of June 30, 2019 and 2018, and the respective changes in its financial position for the years 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 Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's financial statements. The combining balance sheets and combining statements of revenues, expenditures and changes in fund balance are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining balance sheets and combining statements of revenues, expenditures and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 sheets and combining statements of revenues, expenditures and changes in fund balance are fairly stated, in all material respects, in relation to the basic 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 September 24, 2019 on our consideration of the 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 solely 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 effectiveness of the Fund's 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 Fund's internal control over financial reporting and compliance.

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

Bismarck, North Dakota
September 24, 2019

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019, 2018 AND 2017

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 years ended June 30, 2019, 2018 and 2017. 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 PACE Fund 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 2017 Legislature approved the following appropriations and transfers from the identified PACE programs during the biennium July 1, 2017 through June 30, 2019:

| | | |
|----------|-------------------|---|
| PACE | \$ 6,000,000 | Legislative Appropriation transfer from BND |
| | 5,121,585 | Carry Forward from Previous Allocation |
| | (7,250,000) | Transfer to Flex PACE |
| | 1,000,000 | Net Transfers from Beginning Farmer |
| | 1,500,000 | Transfer from Ag PACE |
| | <u>125,315</u> | Adjustments on Defaulted or Prepaid PACE Loans |
| | \$ 6,496,900 | |
| Flex | \$ 10,000,000 | Legislative Appropriation transfer from BND |
| | 7,250,000 | Transfer from PACE |
| | (250,000) | Transfer to Biofuels PACE |
| | 3,943,471 | Carry Forward from Previous Allocation |
| | <u>1,096,248</u> | Adjustments on Defaulted or Prepaid Flex PACE Loans |
| | \$ 22,039,719 | |
| Biofuels | \$ 1,000,000 | Legislative Appropriation transfer from BND |
| | 250,000 | Transfer from Flex PACE |
| | 714,447 | Carry Forward from Previous Allocation |
| | <u>204,739</u> | Adjustments on Defaulted or Biofuels PACE Loans |
| | \$ 2,169,186 | |
| Medical | \$ 0 | Legislative Appropriation transfer from BND |
| | <u>10,249,622</u> | Carry Forward from Previous Allocation |
| | \$10,249,622 | |

During the year ended June 30, 2019, the Bank of North Dakota transferred \$4,750,000 to PACE, \$5,500,000 to Flex PACE, and \$900,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$3,250,000 from PACE to Flex PACE, \$1,500,000 from the Beginning Farmer Revolving Loan Fund to PACE, and \$1,000,000 from Ag PACE to PACE.

During the year ended June 30, 2018, the Bank of North Dakota transferred \$1,250,000 to PACE, \$4,500,000 to Flex PACE, and \$100,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$4,000,000 from PACE to Flex PACE, \$500,000 from PACE to Beginning Farmer, \$500,000 from Ag PACE to PACE, and \$250,000 from Flex PACE to Biofuels PACE.

During the year ended June 30, 2017, the Bank of North Dakota transferred \$4,600,000 to PACE, \$11,800,000 to Flex PACE, and \$1,200,000 to Biofuels PACE from its current earnings and undivided profits.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019, 2018 AND 2017

The following is a recap of the PACE Fund activity for fiscal years ended June 30, 2019, 2018 and 2017:

| | <u>PACE</u> | <u>Flex PACE</u> | <u>BioFuels PACE</u> | <u>Medical PACE</u> |
|--|---------------|------------------|----------------------|---------------------|
| Current number of loans | 86 | 673 | 64 | 2 |
| Total outstanding principal | \$ 47,053,711 | \$ 185,050,250 | \$ 9,860,333 | \$ 10,184,591 |
| Loans funded in year ended June 30, 2017 | 5 | 101 | 2 | 2 |
| Original loan amount funded | \$ 10,533,378 | \$ 103,839,514 | \$ 842,100 | \$ 12,754,000 |
| Buydown | \$ 545,524 | \$ 8,210,427 | \$ 269,556 | \$ 7,802,025 |
| Buydown not disbursed | \$ 482,889 | \$ 2,381,588 | \$ - | \$ - |
| Loans funded in year ended June 30, 2018 | 5 | 103 | 10 | - |
| Original loan amount funded | \$ 13,776,618 | \$ 67,047,141 | \$ 4,854,675 | \$ - |
| Buydown | \$ 807,204 | \$ 8,349,093 | \$ 1,424,999 | \$ - |
| Buydown not disbursed | \$ 494,473 | \$ 1,837,098 | \$ 70,242 | \$ - |
| Loans funded in year ended June 30, 2019 | 15 | 123 | 9 | - |
| Original loan amount funded | \$ 43,689,108 | \$ 63,931,357 | \$ 2,243,149 | \$ - |
| Buydown | \$ 4,210,110 | \$ 6,940,491 | \$ 511,342 | \$ - |
| Buydown not disbursed | \$ 1,153,561 | \$ 1,247,869 | \$ - | \$ - |
| Loans pending as of June 30, 2019 | 4 | 42 | 2 | 1 |
| Loan commitments outstanding | \$ 7,851,358 | \$ 30,745,642 | \$ 905,000 | \$ 5,000,000 |
| Buydown | \$ 1,251,122 | \$ 5,250,671 | \$ 313,764 | \$ 2,076,583 |
| Available buydown as of June 30, 2019 | \$ - | \$ 1,272,880 | \$ - | \$ 371,014 |

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

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019, 2018 AND 2017

CONDENSED BALANCE SHEETS
JUNE 30, 2019, 2018 AND 2017

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|------------------------------------|-----------------------------|----------------------|----------------------|
| ASSETS | | | |
| Cash deposits | <u>\$ 59,263,652</u> | <u>\$ 55,227,208</u> | <u>\$ 58,123,789</u> |
| LIABILITIES | | | |
| Accrued interest payable | <u>\$ 825,250</u> | <u>\$ 745,576</u> | <u>\$ 670,109</u> |
| FUND BALANCE | <u>58,438,402</u> | <u>54,481,632</u> | <u>57,453,680</u> |
| Total liabilities and fund balance | <u>\$ 59,263,652</u> | <u>\$ 55,227,208</u> | <u>\$ 58,123,789</u> |

Fund Balance

The Fund Balance represents funds available to the PACE program. Fund balance increased by \$4 million, or 7%, from 2018 to 2019 primarily due to transfers from the Bank of North Dakota. Fund balance decreased by \$3 million, or 5%, from 2017 to 2018 primarily due to increased buydown expense. Fund balance increased by \$9.7 million, or 20%, from 2016 to 2017 primarily due to a net transfer in of \$17.6 million.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019, 2018 AND 2017

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| REVENUES - Interest income | \$ 289,451 | \$ 200,321 | \$ 167,324 |
| EXPENDITURES - Buydown interest | <u>9,982,681</u> | <u>9,022,369</u> | <u>8,098,522</u> |
| EXPENDITURES OVER REVENUES | (9,693,230) | (8,822,048) | (7,931,198) |
| NET TRANSFERS IN / OUT | <u>13,650,000</u> | <u>5,850,000</u> | <u>17,600,000</u> |
| NET CHANGE IN FUND BALANCE | 3,956,770 | (2,972,048) | 9,668,802 |
| FUND BALANCE, BEGINNING OF YEAR | <u>54,481,632</u> | <u>57,453,680</u> | <u>47,784,878</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 58,438,402</u> | <u>\$ 54,481,632</u> | <u>\$ 57,453,680</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 \$960,000, or 11% from 2018 to 2019, \$924,000, or 11%, from 2017 to 2018, and \$623,000, or 8%, from 2016 to 2017 primarily due to an increase in Flex PACE activity.

Transfers In/Out

During the year ended June 30, 2019, the Bank of North Dakota transferred \$4,750,000 to PACE, \$5,500,000 to Flex PACE, and \$900,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$3,250,000 from PACE to Flex PACE, \$1,500,000 from the Beginning Farmer Revolving Loan Fund to PACE, and \$1,000,000 from Ag PACE to PACE.

During the year ended June 30, 2018, the Bank of North Dakota transferred \$1,250,000 to PACE, \$4,500,000 to Flex PACE, and \$100,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$4,000,000 from PACE to Flex PACE, \$500,000 from PACE to Beginning Farmer, \$500,000 from Ag PACE to PACE, and \$250,000 from Flex PACE to Biofuels PACE.

During the year ended June 30, 2017, the Bank of North Dakota transferred \$4,600,000 to the PACE Program, \$11,800,000 to the Flex PACE Program, and \$1,200,000 to the Biofuels PACE Program.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019, 2018 AND 2017

ECONOMIC FACTORS AND FUTURE OUTLOOK

The 2019 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$26,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund. The demand for these funds is projected to remain steady.

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, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash deposits at the Bank of North Dakota | <u>\$ 59,263,652</u> | <u>\$ 55,227,208</u> |
| LIABILITIES AND FUND BALANCE | | |
| LIABILITIES | | |
| Accrued interest payable | <u>\$ 825,250</u> | <u>\$ 745,576</u> |
| FUND BALANCE | | |
| Committed for interest buydown | 57,330,738 | 51,269,529 |
| Committed for future interest buydown | <u>1,107,664</u> | <u>3,212,103</u> |
| Total fund balance | <u>58,438,402</u> | <u>54,481,632</u> |
| Total liabilities and fund balance | <u>\$ 59,263,652</u> | <u>\$ 55,227,208</u> |

PACE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|----------------------|
| REVENUES | | |
| Interest income | \$ 289,451 | \$ 200,321 |
| EXPENDITURES | | |
| Buydown interest | <u>9,982,681</u> | <u>9,022,369</u> |
| EXPENDITURES OVER REVENUES | (9,693,230) | (8,822,048) |
| OTHER FINANCING SOURCES | | |
| Transfers in, net of interfund transfers | 13,650,000 | 6,350,000 |
| Transfers out, net of interfund transfers | <u>-</u> | <u>(500,000)</u> |
| NET CHANGE IN FUND BALANCE | 3,956,770 | (2,972,048) |
| FUND BALANCE, BEGINNING OF YEAR | <u>54,481,632</u> | <u>57,453,680</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 58,438,402</u> | <u>\$ 54,481,632</u> |

PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 monies transferred into the fund, interest on fund monies and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota (an enterprise fund of the State of North Dakota) supervises and administers the PACE Fund. The purpose of the PACE Fund is to buy down 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 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 \$500,000 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 amount from the fund in the interest rate buydown may not exceed \$500,000 per borrower in any biennium. 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

Biofuels PACE Program

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

Medical PACE Program

The Medical PACE Program provides interest buydown to assist in the financing of critical access hospital medical infrastructure throughout North Dakota. The maximum interest buydown amount does not apply to the Medical PACE Program nor does the community percentage factor. Loan proceeds may be used to finance the purchase of land, the purchase of equipment, or to purchase, lease, erect, or improve any structure or facility to the extent that the governing board of the health care facility has authority to authorize such activity.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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.

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 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, 2019 and 20178, was \$59,263,652 and \$55,227,208, 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 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, 2019, the Bank of North Dakota transferred \$4,750,000 to PACE, \$5,500,000 to Flex PACE, and \$900,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$3,250,000 from PACE to Flex PACE, \$1,500,000 from the Beginning Farmer Revolving Loan Fund to PACE, and \$1,000,000 from Ag PACE to PACE.

During the year ended June 30, 2018, the Bank of North Dakota transferred \$1,250,000 to PACE, \$4,500,000 to Flex PACE, and \$100,000 to Biofuels PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$4,000,000 from PACE to Flex PACE, \$500,000 from PACE to Beginning Farmer, \$500,000 from Ag PACE to PACE, and \$250,000 from Flex PACE to Biofuels PACE.

The PACE Fund is supervised and administered by the Bank 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 \$9,982,680 and \$9,022,369 for the years ended June 30, 2019 and 2018, respectively.

The 2019 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$26,000,000 from the Bank’s current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2019, and ending June 30, 2021.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 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, 2019 and 2018

PACE Fund

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2019

| | <u>PACE</u> | <u>Flex PACE</u> | <u>BioFuels PACE</u> | <u>Medical PACE</u> | <u>Total</u> |
|---|---------------------|----------------------|--------------------------|-------------------------|----------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash deposits at the Bank of North Dakota | \$ 8,898,520 | \$ 36,766,527 | \$ 4,600,523 | \$ 8,998,082 | \$ 59,263,652 |
| Total assets | <u>\$ 8,898,520</u> | <u>\$ 36,766,527</u> | <u>\$ 4,600,523</u> | <u>\$ 8,998,082</u> | <u>\$ 59,263,652</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accrued interest payable | \$ 116,076 | \$ 604,284 | \$ 63,633 | \$ 41,257 | \$ 825,250 |
| Total liabilities | <u>116,076</u> | <u>604,284</u> | <u>63,633</u> | <u>41,257</u> | <u>825,250</u> |
| FUND BALANCE | | | | | |
| Committed for legally contracted interest buydowns | 8,782,444 | 35,706,266 | 4,214,960 | 8,627,068 | 57,330,738 |
| Committed for future interest buydowns | <u>-</u> | <u>455,977</u> | <u>321,930</u> | <u>329,757</u> | <u>1,107,664</u> |
| Total fund balance | <u>8,782,444</u> | <u>36,162,243</u> | <u>4,536,890</u> | <u>8,956,825</u> | <u>58,438,402</u> |
| Total liabilities and fund balance | <u>\$ 8,898,520</u> | <u>\$ 36,766,527</u> | <u>\$ 4,600,523</u> | <u>\$ 8,998,082</u> | <u>\$ 59,263,652</u> |

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2018

| | <u>PACE</u> | <u>Flex PACE</u> | <u>BioFuels PACE</u> | <u>Medical PACE</u> | <u>Total</u> |
|---|---------------------|----------------------|--------------------------|-------------------------|----------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash deposits at the Bank of North Dakota | \$ 6,233,123 | \$ 35,036,801 | \$ 4,464,121 | \$ 9,493,163 | \$ 55,227,208 |
| Total assets | <u>\$ 6,233,123</u> | <u>\$ 35,036,801</u> | <u>\$ 4,464,121</u> | <u>\$ 9,493,163</u> | <u>\$ 55,227,208</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accrued interest payable | \$ 75,807 | \$ 574,222 | \$ 53,367 | \$ 42,180 | \$ 745,576 |
| Total liabilities | <u>75,807</u> | <u>574,222</u> | <u>53,367</u> | <u>42,180</u> | <u>745,576</u> |
| FUND BALANCE | | | | | |
| Committed for legally contracted interest buydowns | 6,045,636 | 31,801,793 | 4,299,951 | 9,122,149 | 51,269,529 |
| Committed for future interest buydowns | <u>111,680</u> | <u>2,660,786</u> | <u>110,803</u> | <u>328,834</u> | <u>3,212,103</u> |
| Total fund balance | <u>6,157,316</u> | <u>34,462,579</u> | <u>4,410,754</u> | <u>9,450,983</u> | <u>54,481,632</u> |
| Total liabilities and fund balance | <u>\$ 6,233,123</u> | <u>\$ 35,036,801</u> | <u>\$ 4,464,121</u> | <u>\$ 9,493,163</u> | <u>\$ 55,227,208</u> |

PACE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2019

| | <u>PACE</u> | <u>Flex PACE</u> | <u>BioFuels PACE</u> | <u>Medical PACE</u> | <u>Eliminations</u> | <u>Total</u> |
|---------------------------------|---------------------|----------------------|--------------------------|-------------------------|---------------------|----------------------|
| REVENUES | | | | | | |
| Interest income | \$ 58,307 | \$ 231,144 | \$ - | \$ - | \$ - | \$ 289,451 |
| EXPENDITURES | | | | | | |
| Buydown interest | <u>1,433,179</u> | <u>7,281,480</u> | <u>773,864</u> | <u>494,158</u> | <u>-</u> | <u>9,982,681</u> |
| EXPENDITURES OVER REVENUES | (1,374,872) | (7,050,336) | (773,864) | (494,158) | - | (9,693,230) |
| OTHER FINANCING SOURCES | | | | | | |
| Transfers in | 7,250,000 | 8,750,000 | 900,000 | - | (3,250,000) | 13,650,000 |
| Transfers out | <u>(3,250,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,250,000</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | 2,625,128 | 1,699,664 | 126,136 | (494,158) | - | 3,956,770 |
| FUND BALANCE, BEGINNING OF YEAR | <u>6,157,316</u> | <u>34,462,579</u> | <u>4,410,754</u> | <u>9,450,983</u> | <u>-</u> | <u>54,481,632</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 8,782,444</u> | <u>\$ 36,162,243</u> | <u>\$ 4,536,890</u> | <u>\$ 8,956,825</u> | <u>\$ -</u> | <u>\$ 58,438,402</u> |

PACE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2018

| | <u>PACE</u> | <u>Flex PACE</u> | <u>BioFuels PACE</u> | <u>Medical PACE</u> | <u>Eliminations</u> | <u>Total</u> |
|---------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|---------------------|-----------------------------|
| REVENUES | | | | | | |
| Interest income | \$ 36,841 | \$ 163,480 | \$ - | \$ - | \$ - | \$ 200,321 |
| EXPENDITURES | | | | | | |
| Buydown interest | <u>899,680</u> | <u>6,955,376</u> | <u>639,828</u> | <u>527,485</u> | <u>-</u> | <u>9,022,369</u> |
| EXPENDITURES OVER REVENUES | (862,839) | (6,791,896) | (639,828) | (527,485) | - | (8,822,048) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 1,750,000 | 8,500,000 | 350,000 | - | (4,250,000) | 6,350,000 |
| Transfers out | <u>(4,500,000)</u> | <u>(250,000)</u> | <u>-</u> | <u>-</u> | <u>4,250,000</u> | <u>(500,000)</u> |
| NET CHANGE IN FUND BALANCE | (3,612,839) | 1,458,104 | (289,828) | (527,485) | - | (2,972,048) |
| FUND BALANCE, BEGINNING OF YEAR | <u>9,770,155</u> | <u>33,004,475</u> | <u>4,700,582</u> | <u>9,978,468</u> | <u>-</u> | <u>57,453,680</u> |
| FUND BALANCE, END OF YEAR | <u><u>\$ 6,157,316</u></u> | <u><u>\$ 34,462,579</u></u> | <u><u>\$ 4,410,754</u></u> | <u><u>\$ 9,450,983</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 54,481,632</u></u> |

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

Governor of North Dakota
and the Legislative Assembly
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 (the Fund), a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting 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 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 Fund’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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 24, 2019

**PACE Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2019**

Governor of North Dakota
and the Legislative Assembly
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?

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on 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 and the process used by management to determine 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 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 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 Governor of North Dakota, Legislative Assembly, Legislative Audit and Fiscal Review Committee, North Dakota Industrial Commission, Bank of North Dakota Advisory Board and management of the 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
September 24, 2019

September 24, 2019

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund (the Fund) as of and for the year ended June 30, 2019, and have issued our report thereon dated September 24, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 26, 2019 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on 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 markedly from management’s current judgments. There are no sensitive estimates affecting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no corrected or uncorrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated September 24, 2019.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

Modification of the Auditor’s Report

We have made the following modification to our auditor’s report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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



Bismarck, North Dakota