

Financial Statements  
June 30, 2016 and 2015



# Medical Facility Infrastructure Loan Fund

# MEDICAL FACILITY INFRASTRUCTURE LOAN FUND

## Table of Contents

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	<u>Exhibits</u>	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b>		1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>		3
<b>FINANCIAL STATEMENTS</b>		
Statements of Net Position		7
Statements of Revenues, Expenses and Changes in Fund Net Position		8
Statements of Cash Flows		9
Notes to Financial Statements		10
<b>EXHIBITS</b>		
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1	16
Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	18
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B1	21



## 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 Medical Facility Infrastructure Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2016 and 2015, 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.

### Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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.

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## **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, 2016 and 2015, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

### **Adoption of New Accounting Standard**

As described in Notes 1 and 6 to the financial statements, the Fund adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

### **Reporting Entity**

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities 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, 2016 or 2015, the changes in its financial position, or, where applicable, its cash flows 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 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2016 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 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 Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota  
September 23, 2016

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015 AND 2014**  
**(Dollars in Thousands)**

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The management discussion and analysis of the Medical Facility Infrastructure Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2016, 2015 and 2014. Please read it in conjunction with the financial statements of the Fund.

**FINANCIAL HIGHLIGHTS:**

The Medical Facility Infrastructure Loan Fund was established by North Dakota Century Code Section 6-09-47 to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the state or improves access to existing nonprofit health care providers in the state.

There were two loans totaling \$8,254 made by the Fund during the year ended June 30, 2016. There was one loan totaling \$10,000 made by the Fund during the year ended June 30, 2015. There were no loans made by the Fund for the year ended June 30, 2014. As of June 30, 2016, the gross amount of outstanding loans is \$17,783 with an allowance for credit losses of \$395 for net loans of \$17,388.

There were three loan commitments for \$31,746 as of June 30, 2016.

Funds available for investment in loans for the year ended June 30, 2016 were \$32,472.

**REQUIRED FINANCIAL STATEMENTS:**

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

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015 AND 2014**  
**(Dollars in Thousands)**

**CONDENSED STATEMENTS OF NET POSITION**  
**JUNE 30, 2016, 2015 AND 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,622	\$ 21,654	\$ 24,021
Investments	24,850	18,453	26,003
Loans	17,388	9,770	-
Interest receivable	62	18	3
	<u>49,922</u>	<u>49,895</u>	<u>50,027</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 49,922</b>	<b>\$ 49,895</b>	<b>\$ 50,027</b>
<b>LIABILITIES</b>			
	<u>\$ 22</u>	<u>\$ 49,895</u>	<u>\$ 50,027</u>
<b>NET POSITION - UNRESTRICTED</b>	<u>49,900</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 49,922</b>	<b>\$ 49,895</b>	<b>\$ 50,027</b>

*Investments*

Investments increased \$6,397 or a 35% increase from June 30, 2015 to June 30, 2016 due to the investment of funds not currently required for loan disbursements. Investments decreased \$7,550 or a 29% decrease from June 30, 2014 to June 30, 2015 due to investment maturities and subsequent loan disbursements.

*Loans*

There were two loans totaling \$8,254 made during the fiscal year 2016, one loan totaling \$10,000 made during the fiscal year 2015 and no loans made during the fiscal year 2014. As of June 30, 2016, there are three loans outstanding totaling \$17,783 with an allowance for credit losses of \$395 for net loans of \$17,388.

*Liabilities*

The 2015 North Dakota Legislature passed Senate Bill 1212 to change the Fund to a revolving fund appropriated to the Bank on a continuing basis. The elimination of the liability to the Strategic Investment and Improvements Fund (SIIF) is shown as an operating transfer.

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015 AND 2014**  
**(Dollars in Thousands)**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2016, 2015 AND 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES	<u>\$ 134</u>	<u>\$ 8</u>	<u>\$ -</u>
OPERATING EXPENSES	<u>237</u>	<u>238</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>(103)</u>	<u>(230)</u>	<u>-</u>
NONOPERATING REVENUES/(EXPENSES)			
Investment income	<u>112</u>	<u>117</u>	<u>27</u>
Interest expense	<u>-</u>	<u>113</u>	<u>(27)</u>
NONOPERATING INCOME	<u>112</u>	<u>230</u>	<u>-</u>
INCOME/(LOSS) BEFORE TRANSFERS	<u>9</u>	<u>-</u>	<u>-</u>
TRANSFERS IN	<u>49,891</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>49,900</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 49,900</u>	<u>\$ -</u>	<u>\$ -</u>

*Revenue*

Operating revenue is from interest accrued on loans outstanding. The interest rate established for the Fund has been set at one percent.

*Expenses*

The provision for credit loss was \$165 and \$230 for the years ended June 30, 2016 and 2015, respectively. Other expenses include an administration fee paid to the Bank of North Dakota in the amount of one-half percent of any outstanding loans and an independent audit of the financial records.

*Nonoperating Revenue/(Expenses)*

Nonoperating revenue represents interest earned on the cash balance and investments. Prior to the elimination of the liability to the SIIF, nonoperating expense represented the interest earned less any operating expenses that would have been paid to the SIIF as interest expense.

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015 AND 2014**  
**(Dollars in Thousands)**

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*Transfers*

The 2015 North Dakota Legislature passed Senate Bill 2012 to change the Fund to a revolving fund appropriated to the Bank on a continuing basis. The elimination of the liability to the SIIF is shown as a transfer in.

**ECONOMIC FACTORS AND FUTURE OUTLOOK**

As of June 30, 2016, there were three outstanding commitments to extend credit for \$31,746. A recipient of a loan under the Fund must complete the financed construction project within twenty-four months of approval of the loan. The repayment schedule of these loans may not exceed 25 years.

**CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

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

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 7,622	\$ 21,654
Investments	24,850	6,003
Loans, current portion	651	354
Interest receivable	62	18
	<u>33,185</u>	<u>28,029</u>
Total current assets		
Noncurrent Assets		
Investments	-	12,450
Loans, net of allowance for credit losses of \$395 in 2016 and \$230 in 2015	16,737	9,416
	<u>16,737</u>	<u>21,866</u>
Total noncurrent assets		
	<u>16,737</u>	<u>21,866</u>
Total assets and deferred outflows	<u>\$ 49,922</u>	<u>\$ 49,895</u>
<b>LIABILITIES</b>		
Current Liabilities	\$ 22	\$ 4
Noncurrent Liabilities	-	49,891
	<u>-</u>	<u>49,891</u>
<b>NET POSITION</b>		
Unrestricted	49,900	-
	<u>49,900</u>	<u>-</u>
Total liabilities, deferred inflows and net position	<u>\$ 49,922</u>	<u>\$ 49,895</u>

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 134</u>	<u>\$ 8</u>
OPERATING EXPENSES		
Administrative fees	67	4
Other expenses	5	4
Provision for credit loss	<u>165</u>	<u>230</u>
OPERATING LOSS	(103)	(230)
NONOPERATING REVENUES		
Investment income	112	117
Interest expense	<u>-</u>	<u>113</u>
NONOPERATING INCOME	<u>112</u>	<u>230</u>
INCOME/(LOSS) BEFORE TRANSFERS	9	-
TRANSFERS		
Transfer from Strategic Investment and Improvements Fund	<u>49,891</u>	<u>-</u>
CHANGE IN NET POSITION	49,900	-
TOTAL NET POSITION, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 49,900</u></u>	<u><u>\$ -</u></u>

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Payment of other expenses	\$ (54)	\$ (4)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(54)</u>	<u>(4)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Repayments to Strategic Investment and Improvements Fund	-	(23)
NET CASH FROM (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(23)</u>
INVESTING ACTIVITIES		
Investment income received	126	147
Proceeds from investment maturities	6,000	20,000
Loan interest received	131	-
Proceeds from principal collections on loans	471	-
Purchase of investments	(12,452)	(12,487)
Loans advanced	(8,254)	(10,000)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(13,978)</u>	<u>(2,340)</u>
NET CHANGE IN CASH	(14,032)	(2,367)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,654</u>	<u>24,021</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,622</u>	<u>\$ 21,654</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (103)	\$ (230)
Adjustments to reconcile operating loss to net cash used for operating activities		
Adjustment for provision for loan loss	165	230
Increase in due to Bank of North Dakota	18	4
Reclassification of items to other activities		
Interest income on loans	(134)	(8)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (54)</u>	<u>\$ (4)</u>

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09-47 of the North Dakota Century Code (NDCC) established the Medical Facility Infrastructure Loan Fund (the Fund), effective May 3, 2013. The purpose of the Fund is to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the State or improves access to existing nonprofit health care providers in the state. The Bank of North Dakota administers the Fund and all loans made by the Fund. The Fund was established by a fifty million dollar loan from the State of North Dakota's Strategic Investment and Improvements Fund (SIIF).

The 2015 North Dakota Legislature passed Senate Bill 2012 that made the Fund a revolving fund and eliminated the repayment requirement to SIIF. All moneys transferred into the Fund, interest on moneys in the Fund, and collections of principal and interest on loans from the Fund are appropriated to the Bank on a continuing basis.

Loans made by the Fund may not exceed the lesser of 15 million dollars or 75% of the actual cost of the project, must have an interest rate equal to 1%, and must have a repayment schedule of no longer than 25 years. A recipient of a loan under the Fund must complete the financed construction project within 24 months of approval of the loan.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

Based on that criteria, no organizations were determined to be part of the Fund. The Fund is included as part of the primary government in the State of North Dakota's reporting.

*Fund Accounting*

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

*Basis of Accounting and Measurement Focus*

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

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

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*Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses.

*Significant Group Concentrations of Credit Risk*

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

*Cash and Cash Equivalents*

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

*Investments*

Investments are carried at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Unrealized gains and losses due to fluctuations in fair value are included in investment income.

*Loans*

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

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

*Allowance for Credit Losses*

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

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

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

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*Credit Related Financial Instruments*

In the ordinary course of business, the Fund has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

*Operating and Non-operating Revenues*

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

*New GAAP Implementation*

In fiscal year 2016, the Fund implemented GASB Statement No. 72 – *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Fund’s implementation of this statement required no adjustments to prior periods presented.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

*Deposits*

The carrying value and bank balance of the Fund’s cash deposits at June 30, 2016 and June 30, 2015 was \$7,622 and \$21,654, 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 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. None of the Fund’s deposits are covered by depository insurance. The Fund’s deposits are uncollateralized and all of the deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

*Investments*

Section 15-03-04 of the North Dakota Century Code requires that the Fund apply the prudent investor rule in investing the funds under its control. Application of the prudent investor rule dictates that investments of the Fund should be made using the same judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it.

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

At June 30, 2016 and 2015, the Fund had investments of \$24,850 and \$18,453, respectively. Current investments consist of U.S. Treasury Securities with maturity dates ranging in duration from November 30, 2016 to January 15, 2017.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of the investment that is in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Maturity dates of investments range in duration from five to seven months which will serve to decrease interest rate risk. The Fund does not have a formal policy regarding the maturities of its investments.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund holds investments with minimal risk since they are guaranteed by either the Federal government or the State of North Dakota.

**NOTE 3 - LOANS**

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

	<u>2016</u>	<u>2015</u>
Loans, current portion	\$ 651	\$ 354
Loans, noncurrent portion	<u>17,132</u>	<u>9,646</u>
Total loans	17,783	10,000
Allowance for credit losses	<u>395</u>	<u>230</u>
Total loans, net	<u>\$ 17,388</u>	<u>\$ 9,770</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2014	\$ -
Loan advances	10,000
Principal collections	<u>-</u>
Balance, June 30, 2015	10,000
Loan advances	8,254
Principal collections	<u>(471)</u>
Balance, June 30, 2016	<u>\$ 17,783</u>

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

Changes in allowance for credit losses are as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 230	\$ -
Provision of credit losses	<u>165</u>	<u>230</u>
Balance, end of year	<u>\$ 395</u>	<u>\$ 230</u>

There were no impaired loans as of June 30, 2016. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2016.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

Senate Bill 2187 of the 2013 Legislative Session created the Fund and authorized a loan from the Strategic Investment and Improvement Fund (SIIF) of \$50,000. Senate Bill 2012 of the 2015 Legislative Session made the Fund a revolving fund and eliminated the liability to the SIIF. The elimination of the liability to SIIF is shown as a transfer on the statement of revenues, expenses, and changes in fund net position.

The Fund is supervised and administered by the Bank of North Dakota. All cash and time deposits are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the Fund \$67 and \$4 for administrative fees during the years ended June 30, 2016 and 2015, respectively.

**NOTE 5 - LOAN COMMITMENTS**

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were three outstanding commitments for \$31,746 to extend credit as of June 30, 2016.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
**(Dollars in Thousands)**

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**NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value measurements are used to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. In accordance with GASB Statement No. 72, investments of the Fund are recorded at fair value. Investments of the Fund consist entirely of U.S. Treasury Securities, which are classified as Level 1 securities for which valuation is based upon quoted prices in active markets. The fair value of these investments as of June 30, 2016 and 2015 was \$24,850 and \$18,453, respectively.

**NOTE 7 - RISK MANAGEMENT**

The Fund is exposed to various risks of loss related to torts and errors and omissions. The 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 per person and \$1,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$2,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Medical Facility Infrastructure Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2016, 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 23, 2016.

**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, 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
September 23, 2016

**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, 2016 audit of the Medical Facility Infrastructure Loan Fund are as follows:

**Audit Report Communications:**

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no findings or recommendations in prior years.

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.

As described in Notes 1 and 6, the Fund changed accounting policies related to disclosures for the fair value of investments by adopting GASB Statement No. 72 – *Fair Value Measurement and Application* in 2016. The statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

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

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

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 matters 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 in the six report questions to be addressed by auditors 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*

Bismarck, North Dakota  
September 23, 2016

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

We have audited the financial statements of the Medical Facility Infrastructure Loan Fund (the Fund), an enterprise fund of the State of North Dakota, for the year ended June 30, 2016. 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 June 15, 2016. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 1 to the financial statements.

As described in Notes 1 and 6, the Fund changed accounting policies related to disclosures for the fair value of investments by adopting GASB Statement No. 72 – *Fair Value Measurement and Application* in 2016. The statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Fund’s financial statements was:

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

The financial statement disclosures are neutral, consistent, and clear.

### **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, a disagreement with management is 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 September 23, 2016.

### **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**

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Exhibit B-1, cont.**

This information is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, 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 23, 2016