

NORTH DAKOTA DEVELOPMENT FUND, INC
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

To the Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the accompanying financial statements of the North Dakota Development Fund, Inc (the Corporation), a component unit of the State of North Dakota as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Development Fund's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Business-Type Activities	Unmodified
Remaining Fund Information	Adverse

Adverse Opinion on Remaining Fund Information

In our opinion, because of the significance of the matter described in the "Basis for Adverse and Unmodified Opinions" paragraph, the financial statements referred to above do not present fairly the fiduciary position of the New Venture Capital Program Fund of the North Dakota Development Fund, Inc. as of June 30, 2022 and 2021, or the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on Business-Type Activities

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Development Fund, Inc. as of June 30, 2022 and 2021, and the respective changes in financial position and, cash flows thereof 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 to the financial statements, the financial statements present only the North Dakota Development Fund, Inc. and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2022 and 2021, 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.

Basis for Adverse and Unmodified Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Dakota Development Fund, Inc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to Adverse Opinion on Aggregate Remaining Fund Information

Management has not included the New Venture Capital Fund in the Corporation's financial statements. Accounting principles generally accepted in the United States of America require the New Venture Capital Fund to be presented as a custodial fund. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the omitted fund has not been determined.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Development Fund, Inc's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Dakota Development Fund, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Development Fund, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements shown on pages 21 through 23 are

presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Corporation'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 Corporation's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

November 14, 2022

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2022. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue increased by \$713,366 (68.99%) to \$1,747,312. Operating revenues increased by \$739,318 (74.78%) to \$1,727,934. The increase in total and in operating revenue is attributable to an increase in dividend/interest income received from investments/loans and an increase in other income. Other income included loan fees, service charges to the Bank of North Dakota to manage the New Venture Capital Program, and a \$250,000 transfer from the Department of Commerce's Momentum Fund. Cash flow decreased by \$1,488,323 (-113.09%) to (\$1,475,162). This large decrease is due to \$4,610,700 more disbursements on loans in 2022 than 2021. The Fund collected \$7,186,443 in principal payments in 2022, which was an increase of \$1,934,298 (36.83%) from 2021.

The Fund received \$120,000 in dividend payments in 2022 from equity investments made, compared to \$40,000 in dividend payments received in 2021. This increase is attributable to improvements in the economic condition of the portfolio company.

General and Administrative expense increased by \$165,469 (50.28%) from \$329,084 in 2021 to \$494,553 in 2022. The increase was attributable to resuming travel and in-person board meetings after the pandemic, adding a third full-time staff member, and employing a temporary worker for eight months.

Operating Income (loss) before non-operating revenues and expenses decreased by \$2,408,626 from (\$465,990) in 2021 to (\$2,874,616) in 2022. The decrease in the operating income (loss) in 2022 was attributable to an increase in provision for losses (change in allowance) of \$4,068,675.

Interest income on deposits decreased by \$25,952 (57.25%) from \$45,330 received in 2021 to \$19,378 received in 2022. The decrease was caused by the liquidation of three of three CDs in 2021 and less cash on hand due to investments made.

The Fund does invest their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. As of the end of FY 2022, the Fund had \$2 million in longer term certificates of deposit, which are at a higher rate of return earning more deposit interest which can be used to fund additional loan and equity investments to businesses in the State of North Dakota.

Cash and cash equivalents decreased by \$1,475,162 (7.51%) to \$18,178,825 (cash balance is before loan and investment commitments).

Net position decreased by \$2,746,530 from \$30,656,358 at the end of year 2021 to \$27,909,828 at the end of year 2022. The change was largely attributed to the increase in provisions for losses.

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2022 AND 2021

Noncurrent net assets excluding equipment (software) increased by \$739,804 from \$7,510,676 in 2021 to \$8,250,480 in 2022. The noncurrent assets consist of the Fund's net loan and equity investments. The net equity investments remained the same at \$250,000 from 2021 to 2022. The equity investments that were charged off during 2021 and 2022 was \$0. The Fund did not make any equity investments in 2022.

Net loans receivable increased by \$739,804 from \$7,260,676 in 2021 to \$8,000,480 in 2022. Loans receivable increased by \$2,780,611 from \$29,959,329 in 2021 to \$32,739,940 in 2022. The loan investments charged off during 2022 were \$34,793 as compared to \$370,433 in 2021. The increase in net loans receivable from 2021 to 2022 was attributable to an increase in loans funded, net of the regular paydown of loans and write-offs.

Interest receivable on loans increased by \$35,208 to \$191,418 in 2022 from \$156,210 in 2021. The increase in the receivable in 2022 is due to the loans made in 2022.

Current portion of loans receivable decreased from \$3,156,924 in 2021 to \$1,163,848 in 2022. The decrease is attributable to fewer loans maturing in fiscal year 2023.

On August 12, 2021, the board of directors voted to increase the funding limit from \$1,000,000 to \$3,000,000. During this fiscal year, 12 projects were funded totaling \$9,364,000.

REQUIRED FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net position summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2022 AND 2021

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2022, 2021 AND 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current assets	<u>\$ 19,534,091</u>	<u>\$ 22,967,121</u>	<u>\$ 24,204,618</u>
Capital assets, net	145,779	185,101	1,360
Noncurrent assets	<u>8,250,480</u>	<u>7,510,676</u>	<u>6,877,225</u>
Total noncurrent assets	<u>8,396,259</u>	<u>7,695,777</u>	<u>6,878,585</u>
Total assets	<u>27,930,350</u>	<u>30,662,898</u>	<u>31,083,203</u>
Liabilities and net position			
Current liabilities	<u>20,522</u>	<u>6,540</u>	<u>6,185</u>
Investment in capital assets	145,779	185,101	1,360
Restricted	12,447,491	12,117,875	-
Unrestricted	<u>15,316,558</u>	<u>18,353,382</u>	<u>31,075,658</u>
Total net position	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Note 3 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the statement of net position. Additional analysis of loans receivable can be found in Note 4.

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2022 AND 2021

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022, 2021 AND 2020

	2022	2021	2020
Operating revenues			
Interest income on loans	\$ 1,267,160	\$ 858,311	\$ 754,077
Dividend income	120,000	40,000	105,544
Other	340,774	90,305	46,445
	<u>1,727,934</u>	<u>988,616</u>	<u>906,066</u>
Nonoperating revenue			
Interest income on deposits and investments	<u>19,378</u>	<u>45,330</u>	<u>88,177</u>
Total revenue	<u>1,747,312</u>	<u>1,033,946</u>	<u>994,243</u>
Operating expenses			
General and administrative	494,553	329,084	391,698
Depreciation expense	39,322	18,311	2,378
Bad debt expense	4,068,675	1,107,211	7,163,963
	<u>4,602,550</u>	<u>1,454,606</u>	<u>7,558,039</u>
Transfers			
Bank of North Dakota	<u>108,708</u>	<u>-</u>	<u>15,000,000</u>
Change in net position	(2,746,530)	(420,660)	8,436,204
Net position, beginning of year	<u>30,656,358</u>	<u>31,077,018</u>	<u>22,640,814</u>
Net position, end of year	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

Economic Factors and Future Outlook

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income and dividend income. Other financial impact could occur though such potential impact is unknown at this time.

On March 19, 2020 the Board of Directors voted to suspend loan payments and interest accrual on all NDDF loans where NDDF was not in a participant decision. On April 9, 2020, the Board of Directors voted to extend the COVID relief for an additional two months.

Contacting the North Dakota Development Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

Assets	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 18,178,825	\$ 19,653,987
Interest receivable on loans	191,418	156,210
Current portion of loans receivable	<u>1,163,848</u>	<u>3,156,924</u>
Total current assets	<u>19,534,091</u>	<u>22,967,121</u>
Noncurrent assets		
Loans receivable, net of current portion and allowance	8,000,480	7,260,676
Investments, net	250,000	250,000
Equipment, net	<u>145,779</u>	<u>185,101</u>
Total noncurrent assets	<u>8,396,259</u>	<u>7,695,777</u>
Total assets	<u>27,930,350</u>	<u>30,662,898</u>
Liabilities and net position		
Current liabilities		
Accrued expenses	<u>20,522</u>	<u>6,540</u>
Net position		
Investment in capital assets	145,779	185,101
Restricted for:		
Regional Rural Development	10,869,786	10,664,161
Child Care	605,329	482,018
Small Business Technology	972,376	971,696
Unrestricted	<u>15,316,558</u>	<u>18,353,382</u>
Total net position	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Interest income on loans	\$ 1,267,160	\$ 858,311
Dividend income	120,000	40,000
Other	340,774	90,305
	<u>1,727,934</u>	<u>988,616</u>
Operating expenses		
General and administrative	494,553	329,084
Depreciation expense	39,322	18,311
Provision for losses (change in allowance)	4,068,675	1,107,211
	<u>4,602,550</u>	<u>1,454,606</u>
Operating income (loss)	<u>(2,874,616)</u>	<u>(465,990)</u>
Nonoperating revenue		
Interest income on deposits and investments	<u>19,378</u>	<u>45,330</u>
Transfers		
Interfund	<u>108,708</u>	<u>-</u>
Change in net position	(2,746,530)	(420,660)
Net position, beginning of year	<u>30,656,358</u>	<u>31,077,018</u>
Net position, end of year	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating activities		
Interest and dividend income	\$ 1,317,159	\$ 514,586
Other receipts	340,774	90,305
Payments to suppliers	<u>(480,570)</u>	<u>(329,439)</u>
Net cash provided (used) by operating activities	<u>1,177,363</u>	<u>275,452</u>
Investing activities		
Purchase of capital assets	-	(203,412)
Interest received on cash and cash equivalents	19,378	45,330
Disbursements on business loans	(9,967,054)	(5,356,354)
Principal payments received on business loans	<u>7,186,443</u>	<u>5,252,145</u>
Net cash provided (used) by Investing Activities	<u>(2,761,233)</u>	<u>(262,291)</u>
Financing activities		
Transfer	<u>108,708</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>108,708</u>	<u>-</u>
Net change in cash and cash equivalents	(1,475,162)	13,161
Cash and cash equivalents, beginning of year	<u>19,653,987</u>	<u>19,640,826</u>
Cash and cash equivalents, end of year	<u>\$ 18,178,825</u>	<u>\$ 19,653,987</u>
Reconciliation of operating loss to net cash		
Provided by operating activities		
Operating income (loss)	\$ (2,874,616)	\$ (465,990)
Adjustments to reconcile operating income (loss)		
to net cash provided (used) by operating activities		
Depreciation	39,322	18,311
Provision for loan losses	4,068,675	(490,195)
Provision for equity investment losses	-	1,597,406
Write-offs	(34,793)	(370,443)
Reclassification of interest and dividend income	-	(13,282)
Changes in assets and liabilities:		
Accrued expense	13,983	(355)
Interest receivable	<u>(35,208)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 1,177,363</u>	<u>\$ 275,452</u>

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing to new or expanding primary sector businesses in rural areas.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child-care facilities in North Dakota.

Development Fund Venture Capital Program

The Development Fund Venture Capital Program is used to provide flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund of the State of North Dakota.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 3).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

Capital Assets and Depreciation

All capital assets are recorded in the accompanying financial statements at cost. Donated capital assets are stated at acquisition value at the time of donation. Equipment with a cost greater than \$5,000 is capitalized and reported in the accompanying financial statements. The Corporation's capital assets are being depreciated on a straight-line basis over estimated useful life of 5 years.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

Loans

Loans are reported at their outstanding unpaid principal adjusted for write-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

Restricted Resources

It is the North Dakota Development Fund, Inc.'s policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

NOTE 2 DEPOSITS

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2022, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	<u>\$ 18,178,825</u>	<u>\$ 18,178,825</u>

As of June 30, 2021, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	<u>\$ 19,653,987</u>	<u>\$ 19,653,987</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits are with the Bank of North Dakota.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

NOTE 3 EQUITY INVESTMENTS

Equity investments in business concerns as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Development fund venture capital	\$ 500,000	\$ 500,000
Valuation allowance - other than temporary impairment	<u>(250,000)</u>	<u>(250,000)</u>
Equity investments, net of allowance	<u>\$ 250,000</u>	<u>\$ 250,000</u>

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Changes in the valuation allowance for equity investments as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 250,000	\$ 250,000
Provision for equity investment losses	-	-
Transfers	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 250,000</u>	<u>\$ 250,000</u>

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

NOTE 4 LOANS RECEIVABLE

Loans receivable at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Development Fund	\$ 11,964,563	\$ 13,709,900
Regional rural development revolving loan fund	5,312,284	5,921,706
Small business technology fund	50,000	50,000
Child care program	1,721,807	1,790,059
Development fund venture capital	<u>13,691,286</u>	<u>8,487,664</u>
	32,739,940	29,959,329
Allowance for loan losses	<u>(23,575,610)</u>	<u>(19,541,729)</u>
Loans receivable, net of allowance for losses	9,164,330	10,417,600
Less: current portion of loans receivable	<u>1,163,848</u>	<u>3,156,924</u>
Loans receivable, net of current portion	<u><u>\$ 8,000,482</u></u>	<u><u>\$ 7,260,676</u></u>

Changes in the allowance for loan losses as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 19,541,729	\$ 18,804,961
Provision for loan losses (reserve decrease)	4,068,674	1,107,211
Write-offs	<u>(34,793)</u>	<u>(370,443)</u>
Balance, end of year	<u><u>\$ 23,575,610</u></u>	<u><u>\$ 19,541,729</u></u>

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

NOTE 5 EQUIPMENT

A statement of changes in fixed assets for the years ended June 30, 2022 and 2021 are as follows:

	Balance 6/30/21	Additions	Deletions	Balance 6/30/22
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	<u>(18,311)</u>	<u>(39,322)</u>	<u>-</u>	<u>(57,633)</u>
	<u>\$ 185,101</u>	<u>\$ (39,322)</u>	<u>\$ -</u>	<u>\$ 145,779</u>

	Balance 6/30/20	Additions	Deletions	Balance 6/30/21
Furniture and equipment	\$ 37,539	\$ -	\$ (37,539)	\$ -
Computer software	48,345	203,412	(48,345)	203,412
Accumulated depreciation	<u>(84,524)</u>	<u>(18,311)</u>	<u>84,524</u>	<u>(18,311)</u>
	<u>\$ 1,360</u>	<u>\$ 185,101</u>	<u>\$ (1,360)</u>	<u>\$ 185,101</u>

NOTE 6 COMMITMENTS AND CONTINGENCIES

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$3,967,278.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$2,375,000.

Child Care Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$160,000.

Development Fund Venture Capital Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$800,000.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022 AND 2021

NOTE 7 RELATED PARTY TRANSACTIONS

The financial statements of the North Dakota Development Fund, Inc. include loans receivables in entities partially owned by members of the Board of Directors. The related party loans receivables have a balance of \$1,514,256 as of June 30, 2021.

NOTE 8 RISK MANAGEMENT

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

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 participate 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 Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured during employment.

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 in any of the past three fiscal years.

NOTE 9 TRANSFERS

During the year ended June 30, 2022, the North Dakota Development Fund purchased a loan from the Bank of North Dakota's New Venture Capital Program in the amount of \$108,708.

NOTE 10 SUBSEQUENT EVENTS

The corporation approved loans after year end totaling \$4,025,000. Subsequent events have been evaluated through November 14, 2022, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021 (Memorandum only)
Assets							
Current assets							
Cash and cash equivalents	\$ 7,538,005	\$ 8,342,481	\$ 552,959	\$ 972,376	\$ 773,004	\$ 18,178,825	\$ 19,653,987
Interest receivable on loans	31,622	106,928	5,048	-	47,820	191,418	156,210
Current portion of loans receivable	578,446	563,721	21,681	-	-	1,163,848	3,156,924
Total current assets	8,148,073	9,013,130	579,688	972,376	820,824	19,534,091	22,967,121
Noncurrent assets							
Loans receivable, net of current portion and allowance	3,933,527	1,856,656	899,391	-	1,310,906	8,000,480	7,260,676
Interfund balances	873,750	-	(873,750)	-	-	-	-
Investments, net	-	-	-	-	250,000	250,000	250,000
Equipment, net	145,779	-	-	-	-	145,779	185,101
Total noncurrent assets	4,953,056	1,856,656	25,641	-	1,560,906	8,396,259	7,695,777
Total assets	13,101,129	10,869,786	605,329	972,376	2,381,730	27,930,350	30,662,898
Liabilities and net position							
Current liabilities							
Accrued expenses	20,522	-	-	-	-	20,522	6,540
Net position							
Investment in capital assets	145,779	-	-	-	-	145,779	185,101
Restricted	-	10,869,786	605,329	972,376	-	12,447,491	11,146,179
Unrestricted	12,934,828	-	-	-	2,381,730	15,316,558	19,325,078
Total net position	\$ 13,080,607	\$ 10,869,786	\$ 605,329	\$ 972,376	\$ 2,381,730	\$ 27,909,828	\$ 30,656,358

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021 (Memorandum only)
Operating revenues							
Interest income on loans	\$ 502,259	\$ 179,287	\$ 42,199	\$ -	\$ 543,415	\$ 1,267,160	\$ 858,311
Dividend income	-	-	-	-	120,000	120,000	40,000
Other	19,055	250,370	4,037	-	67,312	340,774	90,305
	<u>521,314</u>	<u>429,657</u>	<u>46,236</u>	<u>-</u>	<u>730,727</u>	<u>1,727,934</u>	<u>988,616</u>
Operating expenses							
General and administrative	494,553	-	-	-	-	494,553	329,084
Depreciation expense	39,322	-	-	-	-	39,322	18,311
Provision for losses (change in allowance)	(954,104)	243,492	(76,668)	-	4,855,955	4,068,675	1,107,211
	<u>(420,229)</u>	<u>243,492</u>	<u>(76,668)</u>	<u>-</u>	<u>4,855,955</u>	<u>4,602,550</u>	<u>1,454,606</u>
Operating income (loss)	<u>941,543</u>	<u>186,165</u>	<u>122,904</u>	<u>-</u>	<u>(4,125,228)</u>	<u>(2,874,616)</u>	<u>(465,990)</u>
Nonoperating revenue							
Interest income on deposits and investments	<u>8,111</u>	<u>8,671</u>	<u>407</u>	<u>680</u>	<u>1,509</u>	<u>19,378</u>	<u>45,330</u>
Transfers in (out)							
Interfund	<u>(2,216,880)</u>	<u>10,789</u>	<u>-</u>	<u>-</u>	<u>2,314,799</u>	<u>108,708</u>	<u>-</u>
Change in net position	(1,267,226)	205,625	123,311	680	(1,808,920)	(2,746,530)	(420,660)
Net position - beginning of year	<u>14,347,833</u>	<u>10,664,161</u>	<u>482,018</u>	<u>971,696</u>	<u>4,190,650</u>	<u>30,656,358</u>	<u>31,077,018</u>
Net position - end of year	<u>\$ 13,080,607</u>	<u>\$ 10,869,786</u>	<u>\$ 605,329</u>	<u>\$ 972,376</u>	<u>\$ 2,381,730</u>	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021
Operating activities							
Interest and dividend income	\$ 534,569	\$ 157,461	\$ 41,893	\$ -	\$ 583,236	\$ 1,317,159	\$ 514,586
Other receipts	19,055	250,370	4,037	-	67,312	340,774	90,305
Payments to suppliers	(480,570)	-	-	-	-	(480,570)	(329,439)
Net cash provided (used) by operating activities	<u>73,054</u>	<u>407,831</u>	<u>45,930</u>	<u>-</u>	<u>650,548</u>	<u>1,177,363</u>	<u>275,452</u>
Investing activities							
Purchase of capital assets	-	-	-	-	-	-	(203,412)
Interest received on cash and cash equivalents	8,111	8,671	407	680	1,509	19,378	45,330
Disbursements on business loans	(3,282,854)	(375,000)	(384,000)	-	(5,925,200)	(9,967,054)	(5,356,354)
Principal payments received on business loans	5,028,190	984,423	452,251	-	721,579	7,186,443	5,252,145
Net cash provided (used) by Investing Activities	<u>1,753,447</u>	<u>618,094</u>	<u>68,658</u>	<u>680</u>	<u>(5,202,112)</u>	<u>(2,761,233)</u>	<u>(262,291)</u>
Financing activities							
Transfer	(2,216,880)	10,789	-	-	2,314,799	108,708	-
Net cash provided (used) by financing activities	<u>(2,216,880)</u>	<u>10,789</u>	<u>-</u>	<u>-</u>	<u>2,314,799</u>	<u>108,708</u>	<u>-</u>
Net change in cash and cash equivalents	(390,379)	1,036,714	114,588	680	(2,236,765)	(1,475,162)	13,161
Cash and cash equivalents, beginning of year	<u>7,928,384</u>	<u>7,305,767</u>	<u>438,371</u>	<u>971,696</u>	<u>3,009,769</u>	<u>19,653,987</u>	<u>19,640,826</u>
Cash and cash equivalents, end of year	<u>\$ 7,538,005</u>	<u>\$ 8,342,481</u>	<u>\$ 552,959</u>	<u>\$ 972,376</u>	<u>\$ 773,004</u>	<u>\$ 18,178,825</u>	<u>\$ 19,653,987</u>
Reconciliation of operating loss to net cash							
Provided by operating activities							
Operating income (loss)	\$ 941,543	\$ 186,165	\$ 122,904	\$ -	\$ (4,125,228)	\$ (2,874,616)	\$ (465,990)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation	39,322	-	-	-	-	39,322	18,311
Provision for loan losses	(954,104)	243,492	(76,668)	-	4,855,955	4,068,675	(490,195)
Write-offs	-	-	-	-	(34,793)	(34,793)	(370,443)
Provision for equity investment losses	-	-	-	-	-	-	1,597,406
Reclassification of interest and dividend income	-	-	-	-	-	-	(13,282)
Changes in assets and liabilities:							
Accrued expense	13,983	-	-	-	-	13,983	(355)
Interest receivable	32,310	(21,826)	(306)	-	(45,386)	(35,208)	-
Net cash provided (used) by operating activities	<u>\$ 73,054</u>	<u>\$ 407,831</u>	<u>\$ 45,930</u>	<u>\$ -</u>	<u>\$ 650,548</u>	<u>\$ 1,177,363</u>	<u>\$ 275,452</u>

**INDEPEDENT 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
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc
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 North Dakota Development Fund, Inc, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 14, 2022. We expressed an adverse opinion on the remaining fund information, as the fiduciary net position was omitted from the North Dakota Development Fund, Inc.'s financial statements.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the

accompanying schedule of findings and responses as items 2022-001 and 2022-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. 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*.

North Dakota Development Fund Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the North Dakota Development Fund, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and responses. North Dakota Development Fund, Inc.'s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 result 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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

November 14, 2022

NORTH DAKOTA DEVELOPMENT FUND, INC
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2022

2022-001: Preparation of Financial Statements

Criteria

An appropriate system of internal controls requires the Corporation to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The Corporation's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Corporation does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Corporation has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Corporation elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatements to the Corporation's financial statements.

Recommendations

We recommend the Corporation consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Brady, Martz & Associates, P.C., a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund, Inc.

NORTH DAKOTA DEVELOPMENT FUND, INC
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
JUNE 30, 2022

2022-002: Proposition of Journal Entries

Criteria

The Corporation is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The Corporation's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The Corporation's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials and Planned Corrective Actions

The NDDF transitioned to a new general ledger software system at the end of fiscal year 2021. The staff now has adequate internal controls and procedures in place to prevent misstatements in the future.

NORTH DAKOTA DEVELOPMENT FUND, INC
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
JUNE 30, 2022

2022-003: Lack of Loan Documentation

Criteria

Loan receivables and investments should have signed loan agreements and stock certificates supporting the amounts and terms of the loan agreement or investment.

Condition

There were 4 of 118 loans and investments that did not have supporting loan agreements or stock certificates.

Cause

Loan agreements or stock certificates were not kept or were unable to be found during audit fieldwork.

Effect

Loan receivables and investments could be overstated or agreements not honored by the other parties.

Recommendation

We recommend that all loan receivables and investments be supported by signed agreements or stock certificates.

Views of Responsible Officials and Planned Corrective Actions

The NDDF staff will scan and file all loan documents immediately after closing. Staff will work to acquire missing stock certificates and loan documents.

INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2022 audit of the North Dakota Development Fund, Inc are as follows:

Audit Report Communications:

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

Unmodified and Adverse. The financial information for the New Venture Capital Program Fund, which is the Fund we expressed an adverse opinion on, was omitted as this information is reported in the Bank of North Dakota's financial statements.

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, with the exception of finding 2022-003.

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

Yes, we noticed a lack of efficiency due to the limitations of the accounting software that the agency uses.

5. Was action taken on prior audit findings and recommendations?

No, please see findings 2022-001 and 2022-002 noted on the Schedule of Findings and Responses.

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

Yes. We recommend management formally document their review process of bank reconciliations and change or improve their accounting software.

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

The most sensitive estimates affecting the financial statements include the allowances for uncollectible loans receivable and valuation allowances for equity investments.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Among the factors considered in determining whether another than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Our opinion on the reasonableness of these estimates is based on the testing performed during our audit procedures. Our procedures included assessing the risk assigned by the Development Fund to the loans and equity investments, evaluation of the past history of these amounts, discussion with management, and review of recent information regarding the loans and investments.

3. Identify any significant audit adjustments.

Significant adjustments were made to reconcile beginning equity, to adjust interest receivable and interest income, to correctly record transfers between funds and to adjust the allowance for doubtful accounts.

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

None.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

None.

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

None.

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

Based on the audit procedures performed, the North Dakota Development Fund, Inc's critical information technology system is SPARAK and iCore. The exceptions identified that were directly related to this application include the recording of transfers between funds and the recording of interest receivables and interest income.

This report is intended solely for the information and use of the Governor, Legislative Audit and Fiscal Review Committee, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties



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November 14, 2022