FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

AND

SCHEDULE OF APPROPRIATED EXPENDITURES
BIENNIUM ENDED JUNE 30, 2019

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Industrial Commission
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank of North Dakota as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Reporting Entity
As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2018 and 2017 and the changes in its financial position and 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.

Financial Statement Presentation
As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–11, the schedule of bank's share of net pension liability and the schedule of bank contributions on page 57 and the schedule of bank's share of net OPEB liability and schedule of bank contributions on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of appropriated expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

The schedule of appropriated expenditures and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of appropriated expenditures and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 2, 2019 on our consideration of the Bank of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bank of North Dakota'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 Bank of North Dakota's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
April 2, 2019

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar years ended December 31, 2018, 2017 and 2016. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

On an aggregate basis, the loan portfolio decreased by $332,000 or 6.9% to $4,477,000 at December 31, 2018. In 2017, the loan portfolio grew by $116,000 or 2.5%. In 2016 the loan portfolio grew by $438,000 or 10.3%.

Total assets increased by $13,000 or 0.2% to $7,002,000 at December 31, 2018. The increase was largely attributable to investment purchases offset by the sale of the federal student loan portfolio. In 2017, total assets decreased by $289,000 or 4.0% to $6,989,000. The decrease was largely attributable to a reduction in the securities portfolio, coupled with an offsetting increase in loan demand. In 2016, total assets decreased by $115,000 or 1.6% to $7,278,000. The decrease was largely attributable to a reduction in the securities portfolio, coupled with an offsetting increase in loan demand.

The tier one leverage ratio is 12.48% compared to 12.05% and 12.01% in the prior two years. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the statements of net position, statements of revenues, expenses and changes in fund net position, and statements of cash flows. The statement of net position provides the basis for computing rate of return, evaluating the net position of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in fund net position identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also 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.

(continued on next page)

(In Thousands)

CONDENSED STATEMENTS OF NET POSITION

	2018	2017	2016
ASSETS			
Cash and cash equivalents	**$ 509,692**	$ 414,597	$ 424,877
Interest receivable	**56,865**	53,525	50,824
Securities	**1,853,806**	1,600,296	2,003,060
FHLB Restricted Stock	**52,539**	59,316	60,124
Loans, net	**4,477,449**	4,809,971	4,693,726
Other assets	**41,198**	40,332	33,634
Capital assets, net	**10,249**	10,919	11,942
Total assets	**7,001,798**	6,988,954	7,278,188
DEFERRED OUTFLOWS OF RESOURCES	**9,592**	12,273	7,512
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 7,011,390**	$ 7,001,227	$ 7,285,701
LIABILITIES			
Federal funds purchased and repurchase agreements	**$ 271,505**	$ 299,775	$ 242,480
Non-interest bearing deposits	**567,352**	555,020	663,156
Interest bearing deposits	**4,202,467**	4,049,938	4,224,036
Interest payable	**1,366**	1,697	874
Other liabilities	**25,472**	25,641	17,661
Short and long-term debt	**1,103,436**	1,263,569	1,280,538
Total liabilities	**6,171,598**	6,195,640	6,428,744
DEFERRED INFLOWS OF RESOURCES	**14,022**	7,418	7,042
NET POSITION			
Invested in capital assets	**10,249**	10,919	11,942
Restricted for pledging purposes	**470,185**	459,911	475,825
Unrestricted	**345,336**	327,339	362,147
Total net position	**825,770**	798,169	849,915
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 7,011,390**	$ 7,001,227	$ 7,285,701

Securities

Securities totaled $1,854,000 at December 31, 2018 compared to $1,600,000 at December 31, 2017, and $2,003,000 at December 31, 2016. The increase in 2018 is the result of investment purchases from the proceeds of the federal student loan sale. The decrease in 2017 is a result of investments maturing or being sold, with the proceeds used to fund loans. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

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(In Thousands)

Loans

On an aggregate basis, the loan portfolio decreased by $332,500, or 6.9%, to $4,477,000 at year-end 2018 from $4,810,000 at year-end 2017 and $4,694,000 at year-end 2016. There are four major categories of loans at the Bank:

Student loans decreased by $221,500 in 2018 compared to an increase of $28,700 in 2017 and $57,300 in 2016. In 2018, new student loans totaled $83,700 and new consolidation loans were $48,500. Decreases were from $245,700 in federal student loan sales and $108,000 in loan payments including loans paid in full through consolidation. In 2017, new student loans totaled $86,000 and new consolidation loans were $91,700. Decreases were from $149,000 in loan payments including loans paid in full through consolidation. In 2016, new student loans totaled $84,400 and new consolidation loans were $139,400. Decreases were from $166,500 in loan payments including loans paid in full through consolidation.

Residential loans decreased by $67,900 in 2018, increased by $23,000 in 2017, and increased by $45,700 in 2016. In 2018, the Bank sold $26,500 in residential loans. New and refinanced loans made in 2018, 2017, and 2016 totaled $47,700, $121,600, and $157,700, respectively, while normal loan payments and refinancing payoffs were $89,100, $98,600, and $112,000, respectively.

Commercial loans decreased by $32,100 in 2018 compared to increasing by $89,300 in 2017 and increasing by $171,300 in 2016.

Farm loans decreased by $3,200 in 2018 compared to $18,600 in 2017 and increasing by $173,600 in 2016.

Loan Delinquencies and Allowance for Credit Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming and interest is no longer accrued on the loan.

The allowance for credit losses are established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for credit losses for adequacy on a monthly basis. As of December 31, 2018, 37% of the overall loan portfolio is federally or state guaranteed compared to 40% at December 31, 2017 and 41% at December 31, 2016.

The following sets forth certain information with respect to the Bank's loan loss experience:

	2018	2017	2016
Gross loans at end of year	**$ 4,570,199**	$ 4,894,928	$ 4,772,473
Allowance for credit losses			
Balance, beginning of year	**$ 84,958**	$ 78,747	$ 69,294
Provision charged to operations	**12,000**	12,000	16,000
Loans charged off	**(6,157)**	(6,584)	(6,830)
Recoveries	**1,949**	795	283
Balance, end of year	**$ 92,750**	$ 84,958	$ 78,747

(continued on next page)

(In Thousands)

	2018	2017	2016
Net loan charge-offs to total loans at the end of period	**0.09%**	0.12%	0.14%
Net loan charge-offs to non-guaranteed loans at the end of period	**0.15%**	0.20%	0.23%
Allowance at end of period to total loans at end of period	**2.03%**	1.74%	1.65%
Allowance at end of period to non-guaranteed loans at the end of period	**3.25%**	2.92%	2.82%

Capital Assets

Bank of North Dakota had $10,200 in bank premises, equipment, and software at year-end 2018, $10,900 at year-end 2017, and $11,900 at year-end 2016. Capital expenditures totaled $143 in 2018 compared to $300 in 2017 and $1,100 in 2016. This year's expenditures were mainly related to software purchases. (See Note 7 to the financial statements.)

Deposits

Noninterest bearing deposits are $567,400 at December 31, 2018 compared to $555,000 at December 31, 2017 and $663,200 at December 31, 2016. Noninterest bearing deposits are primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $4,202,000 at December 31, 2018 compared to $4,050,000 at December 31, 2017 and $4,224,000 at December 31, 2016. This fluctuation is due to state deposits and the economic status of the state.

Short-Term Borrowings

Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank, customer investments in repurchase agreements with the Bank and overnight borrowings from the Federal Home Loan Bank (FHLB). Short-term borrowings were $948,500 at December 31, 2018 comprised of $677,000 in FHLB borrowings and $271,500 in federal funds. Borrowings were $1,100,000 at December 31, 2017 comprised of $800,000 in FHLB borrowings and $300,000 in federal funds. Borrowings were $1,052,500 at December 31, 2016 comprised of $810,000 in FHLB borrowings and $242,500 in federal funds.

Long-Term Debt

FHLB long-term debt is $426,400 at December 31, 2018 compared to $463,400 at December 31, 2017 and $470,300 at December 31, 2016. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans. (See Note 10 to the financial statements.)

(continued on next page)

Net Position

The Bank has a tier one capital leverage ratio of 12.48%, 12.05%, and 12.01% as of December 31, 2018, 2017, and 2016, respectively. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event is the Bank's net position to be reduced below $175,000.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period, and simulation modeling which produces projections of net interest income under various interest rate scenarios and statement of net position strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month and 24-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

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(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	2018	2017	2016
INTEREST INCOME	**$ 244,456**	$ 214,875	$ 217,153
INTEREST EXPENSE	**46,441**	37,865	33,975
NET INTEREST INCOME	**198,015**	177,010	183,178
Provision for credit losses	**12,000**	12,000	16,000
NET INTEREST INCOME AFTER PROVISION	**186,015**	165,010	167,178
Noninterest income	**2,228**	3,292	1,771
Noninterest expense	**32,028**	33,116	31,631
INCOME BEFORE TRANSFERS	**156,215**	135,186	137,318
TRANSFERS OUT	**(128,614)**	(186,932)	(19,989)
CHANGE IN NET POSITION	**27,601**	(51,746)	117,329
NET POSITION - BEGINNING	**798,169**	849,915	732,586
NET POSITION - ENDING	**$ 825,770**	$ 798,169	$ 849,915

Earnings Summary

The Bank's income before transfers was $156,200 in 2018 compared to $135,200 in 2017 and $137,300 in 2016.

Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Net interest income increased $21,000 from 2017 to 2018, and decreased $6,200 from 2016 to 2017.

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(In Thousands)

The following table shows the average rates earned and paid for 2018, 2017, and 2016:

	2018	2017	2016
Annualized average interest rate earned			
Federal funds sold	**2.02%**	1.23%	0.67%
Securities	**2.15%**	1.70%	1.49%
Loans	**4.36%**	3.94%	3.86%
Weighted average interest rates earned	**3.67%**	3.27%	3.03%
Annualized average interest rate paid			
Deposits	**0.37%**	0.25%	0.24%
Federal funds purchased and repurchase agreements	**1.73%**	0.96%	0.40%
Short and long-term debt	**2.77%**	2.23%	2.13%
Weighted average interest rates paid	**0.85%**	0.68%	0.57%
Net interest spread	**2.82%**	2.59%	2.46%
Net interest margin	**2.95%**	2.71%	2.54%

Provision for Credit Losses

The provision for credit losses was $12,000 in 2018, $12,000 in 2017, and $16,000 in 2016. The Bank continually evaluates its allowance for credit loss position and any additional provision that would be needed.

Noninterest Income

Overall, noninterest income decreased by $1,100 in 2018 and increased by $1,500 in 2017. The main drivers in the fluctuation of noninterest income are changes in the fair value of securities as well as amortization and accretion of securities.

Noninterest Expense

Noninterest expense decreased by $1,100 in 2018 and increased by $1,500 in 2017. Noninterest expense includes salaries and benefits, occupancy and equipment, data processing, and other operating expenses.

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ECONOMIC CONDITION AND OUTLOOK

In October of 2018, Standard and Poor's published a ratings report for the Bank, in which the Bank received a credit rating of "A+" and "A-1" for long-term and short-term credit, respectively. The report noted the long and stable history of the Bank, robust capital ratios, and high loan credit quality as major rating factors.

During 2018, the Bank continued with its mission of "delivering quality, sound financial services that promote agriculture, commerce and industry in North Dakota." While a more stable energy sector provides some optimism that deposits will stabilize, low commodity prices continue to impact our ag economy. Still, the Bank is well diversified in its asset mix and prudent management tools are in place to proactively mitigate concentration risk. As reported on previous pages, the Bank's capital position is as strong as it has ever been with a tier one capital leverage ratio of 12.48%, much higher than the "well capitalized" threshold of 5% as defined by federal banking regulations.

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to visit the Bank for information, the physical address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018	2017
ASSETS		
Cash and due from banks		
Restricted	$ 54,506	$ 55,374
Unrestricted	415,721	301,668
Federal funds sold	39,465	57,555
Cash and cash equivalents	509,692	414,597
Interest receivable		
Due from other funds	835	255
Other	56,030	53,270
	56,865	53,525
Securities	1,853,806	1,600,296
Federal Home Loan Bank restricted stock	52,539	59,316
Loans held for investment		
Restricted	1,466,515	1,608,672
Unrestricted	3,103,684	3,038,411
Loans held for sale	-	247,846
Less allowance for credit losses	(92,750)	(84,958)
	4,477,449	4,809,971
Other assets		
Due from other funds	10,893	14,200
Other	30,305	26,131
	41,198	40,332
Capital assets		
Land	2,449	2,449
Building and equipment, net	7,358	7,788
Intangibles, net	442	682
	10,249	10,919
Total assets	7,001,798	6,988,954
DEFERRED OUTFLOWS OF RESOURCES	9,592	12,273
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 7,011,390	$ 7,001,227

STATEMENTS OF NET POSITION – PAGE 2

	2018	2017
LIABILITIES		
Federal funds purchased	**$ 271,505**	$ 299,775
Deposits		
Non-interest bearing	**487,531**	489,799
Non-interest bearing - of other funds	**79,821**	65,220
Interest bearing	**235,207**	330,547
Interest bearing - of other funds	**3,967,260**	3,719,390
	4,769,819	4,604,956
Interest payable		
Due to other funds	**1,079**	688
Other	**287**	1,010
	1,366	1,698
Other liabilities		
Due to other funds	**161**	165
Net pension and OPEB liability	**17,962**	17,554
Other	**7,349**	7,923
	25,472	25,642
Short and long-term debt		
Current portion	**724,335**	837,103
Long-term portion	**379,101**	426,466
	1,103,436	1,263,569
Total liabilities	**6,171,598**	6,195,640
DEFERRED INFLOWS OF RESOURCES	**14,022**	7,418
NET POSITION		
Invested in capital assets	**10,249**	10,919
Restricted for pledging purposes	**470,185**	459,911
Unrestricted	**345,336**	327,339
Total net position	**825,770**	798,169
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 7,011,390**	$ 7,001,227

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018	2017
INTEREST INCOME		
Federal funds sold	**$ 1,091**	$ 569
Securities	**44,464**	22,866
Loans	**198,901**	191,440
Total interest income	**244,456**	214,875
INTEREST EXPENSE		
Deposits	**17,341**	10,469
Federal funds purchased and repurchase agreements	**4,705**	2,818
Short and long-term debt	**24,395**	24,578
Total interest expense	**46,441**	37,865
NET INTEREST INCOME	**198,015**	177,010
PROVISION FOR CREDIT LOSSES	**12,000**	12,000
NET INTEREST AFTER PROVISION FOR CREDIT LOSSES	**186,015**	165,010
NONINTEREST INCOME		
Service fees and other	**7,170**	6,335
Net decrease in the fair value of securities	**(4,942)**	(3,043)
Total noninterest income	**2,228**	3,292
NONINTEREST EXPENSE		
Salaries and benefits	**18,933**	19,193
Data processing	**5,253**	5,157
Occupancy and equipment	**932**	1,448
Long-term debt prepayment fee	**-**	-
Other operating expenses	**6,909**	7,318
Total noninterest expenses	**32,028**	33,116
INCOME BEFORE TRANSFERS	**156,215**	135,186
TRANSFERS OUT	**(128,614)**	(186,932)
CHANGE IN NET POSITION	**27,601**	(51,746)
TOTAL NET POSITION - BEGINNING OF YEAR	**798,169**	849,915
TOTAL NET POSITION - END OF YEAR	**$ 825,770**	$ 798,169

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018	2017
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	**$ 2,130**	$ 3,250
Receipt of service fees and other income from other entities	**8,194**	1,484
Payment of salaries and benefits	**(15,472)**	(16,537)
Payment of data processing expenses	**(5,015)**	(4,723)
Payment of occupancy and equipment	**(512)**	(981)
Payment of other operating expenses	**(10,736)**	(10,699)
NET CASH USED FOR OPERATING ACTIVITIES	**(21,411)**	(28,206)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	**12,332**	(108,136)
Net increase (decrease) in interest bearing deposits	**152,529**	(174,098)
Interest payments on deposits	**(16,948)**	(10,358)
Net increase (decrease) in federal fund purchased and repurchase agreements	**(28,270)**	57,295
Interest payments on federal funds purchased and repurchase agreements	**(4,692)**	(2,786)
Proceeds from issuance of short and long-term debt	**6,377,000**	3,515,001
Payment of short and long-term debt	**(6,537,133)**	(3,531,969)
Interest payments on short and long-term debt	**(25,128)**	(23,902)
Payment of transfers	**(128,614)**	(186,932)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	**(198,924)**	(465,885)
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	**(143)**	(305)
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(861,167)**	(199,590)
Proceeds from sales, maturities, and principal repayments	**603,033**	599,311
Purchase of Federal Home Loan Bank stock	**(250,080)**	(140,600)
Sale of Federal Home Loan Bank stock	**256,857**	141,409
Purchase of other venture capital assets	**(1,787)**	(1,100)
Sale of other venture capital assets	**712**	602
Investment income received	**42,910**	24,176
Proceeds from sales of loans	**283,647**	7,561
Net (increase) decrease in loans	**36,204**	(137,172)
Loan income received	**197,991**	185,369
Payments from rebuilders loan program	**3,394**	3,793
Proceeds from sale of other real estate and property owned	**3,859**	357
NET CASH FROM INVESTING ACTIVITIES	**315,573**	484,116
NET CHANGE IN CASH AND CASH EQUIVALENTS	**95,095**	(10,280)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**414,597**	424,877
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 509,692**	$ 414,597

STATEMENT OF CASH FLOWS – PAGE 2

	2018	2017
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income before operating transfers	**$ 156,215**	$ 135,186
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**813**	858
Provision for credit losses	**12,000**	12,000
Gain on sale of loans	**(1,620)**	(108)
(Gain) loss on sale of other real estate and property owned	**(705)**	35
Net decrease in the fair value of securities	**4,942**	3,043
Reclassification of interest income and expense to other activities	**(198,015)**	(177,010)
Increase in other assets	**(4,174)**	(10,444)
Decrease in due from other funds	**3,308**	3,747
(Increase) decrease in deferred outflows	**2,680**	(4,760)
Increase (decrease) in due to other funds	**(4)**	49
Increase (decrease) in other liabilities	**(3,455)**	8,823
Increase in deferred inflows	**6,604**	375
NET CASH USED FOR OPERATING ACTIVITIES	**$ (21,411)**	$ (28,206)
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS		
Transfers from net position to transfers payable	**$ 128,614**	$ 186,932

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (BND) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. BND is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are purchased from financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, Bank of North Dakota should include all component units over which the Bank of North Dakota 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 Bank.

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

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the statement of net position of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

The Bank's Statements of Revenues, Expenses and Changes in Fund Net Position are presented in a format consistent with industry practice for financial institutions. Operating revenues are those revenues that are generated from the primary operations of the Bank, which include interest and noninterest income. Operating expenses are those expenses that are essential to the primary operations of the Bank, which include interest and noninterest expenses. All other revenues and expenses are reported as non-operating.

Fund Accounting

The Bank 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.

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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 for 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 (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows present the cash flows for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, 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 and the fair value of interest rate swaps.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the state of North Dakota. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2018 and 2017:

	2018	2017
Commercial loans, of which 2% and 2% are federally guaranteed	**45%**	43%
Student loans, of which 99% and 99% are guaranteed	**26%**	29%
Residential loans, of which 68% and 68% are federally guaranteed	**15%**	15%
Agricultural loans, of which 4% and 4% are federally guaranteed	**14%**	13%
	100%	100%

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of three months or less.

Securities

Investments in debt and equity securities 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 noninterest income. Gains and losses on the sale of securities are recorded on the trade date in noninterest income and are determined using the specific identification method.

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Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4% of total FHLB advances. Since ownership of this stock is restricted, the stock is carried at cost and evaluated periodically for impairment. The FHLB stock is pledged on the FHLB advances (Note 10).

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Loans held for sale are not carried at fair value because they do not meet the definition of an investment in accordance with GASB 72.

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method. Loans are not carried at fair value because they do not meet the definition of an investment in accordance with GASB 72.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Future payments are generally applied against principal until the loan balance is at zero. Any further payments are then recorded as interest income on the cash basis. Loans can be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The Bank uses the allowance method in providing for credit losses. Accordingly, the allowance is increased by the current year's provision for credit losses charged to operations and reduced by net charge-offs. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institution and bank stock loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential loans for impairment disclosures, except for such loans that are placed on nonaccrual.

Loan Charge-Offs

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- An unsecured loan that has principal or interest 120 or more days past due.
- A loan secured by a commercial real estate mortgage, farm real estate mortgage, conventional real estate mortgage, or by other than real property that has principal or interest 120 or more days past due.
- A loan classified as a "loss" by the North Dakota Department of Financial Institutions.
- A loan where there is a recognized loss in conjunction with the acquisition of real estate by the Bank.
- A loan where the Bank deems itself insecure due to the financial condition of the borrower.
- A loan or portion of a loan has been forgiven.

Credit Related Financial Instruments

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 11 for additional information.

Capital Assets

Capital assets, which include intangibles (software), are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5 (for software that is internally developed, the threshold is $50) or more are capitalized and reported in the accompanying financial statements. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $4,152 and $4,700 as of December 31, 2018 and 2017, respectively.

Compensated Absences Payable

Annual Leave: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at April 30 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: Bank employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

The Bank's liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank's appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Restricted Assets and Restricted Net Position

Certain Bank assets and net position carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

Interest Rate Swaps

The Bank enters into interest rate swap agreements to modify interest rates on certain liabilities. The fair values of both hedging derivatives and investment derivatives (if any) are presented on the Statement of Net Position, either as a derivative liability (negative fair value) or as a derivative asset (positive fair value). The change in the total fair value of derivatives that are determined to be effective hedges is recorded as a deferred inflow or outflow of resources on the Statement of Net Position. If a derivative were determined to be an ineffective hedge, it would be classified as an investment derivative, and the change in the total fair value would be presented as part of investment earnings. The Bank currently has one type of derivative outstanding, interest rate swaps which are deemed effective hedges, therefore having no effect on net position.

Income Taxes

Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not subject to federal or state income taxes.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average reserve balances maintained at the Federal Reserve Bank were approximately $73,917 in 2018 and $52,979 in 2017.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution to have a business relationship. On other significant depository relationships, the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

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The following summary presents the amount of the Bank's deposits as of December 31, 2018 and 2017:

	2018	2017
Covered by depository insurance		
Due from banks	**$ 799**	$ 629
Uncollateralized		
Due from banks	**155,813**	96,317
Federal funds sold	**39,465**	57,555
Total bank balances	**$ 196,077**	$ 154,501

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, and capital stock of government sponsored agencies.

The composition of the investment portfolio, related credit quality rating (based on Moody's Investors Service), custody, and duration as of December 31, 2018 is provided below:

	Rating	Custody	Duration (In Years)	2018
Mortgage-backed	**Aaa**	**(1) & (2)**	**2.14**	**$ 671,001**
Federal agency	**Aaa**	**(1) & (2)**	**2.58**	**1,181,805**
State and municipal	**Not rated**	**(2) & (3)**	**11.94**	**1,000**
				$ 1,853,806

The composition of the investment portfolio, related credit quality rating (based on Moody's Investors Service), custody, and duration as of December 31, 2017 is provided below:

	Rating	Custody	Duration (In Years)	2017
U.S. Treasury	Aaa	(1)	0.42	$ 19,968
Mortgage-backed	Aaa	(1) & (2)	2.09	574,090
Federal agency	Aaa	(1) & (2)	2.75	1,005,238
State and municipal	Not rated	(2) & (3)	11.94	1,000
				$ 1,600,296

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Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) These are held by a DTC correspondent.
(3) Registered in the name of the Bank and held in the Bank's vault.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to four years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 2.4 years and 2.5 years as of December 31, 2018 and 2017, respectively.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's	S & P	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

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Investments in any one issuer that represent 5% or more of total investments as of December 31, 2018 and 2017, are as follows:

	2018		2017	
	Amount	**Percent**	Amount	Percent
Federal agency				
Federal Home Loan Bank	**$ 353,171**	**19.1%**	$ 291,832	18.2%
Small Business Administration	**269,264**	**14.5%**	265,621	16.6%
Farm Credit	**267,650**	**14.4%**	103,824	6.5%
Freddie Mac	**165,635**	**8.9%**	148,565	9.3%
Fannie Mae	**79,707**	**4.3%**	154,852	9.7%
Mortgage-backed				
Fannie Mae	**344,003**	**18.6%**	331,994	20.7%
Freddie Mac	**313,416**	**16.9%**	233,385	14.6%
Others less than 5%	**60,960**	**3.3%**	70,223	4.4%
	$ 1,853,806	**100.0%**	$ 1,600,296	100.0%

There were no securities pledged as of December 31, 2018 and 2017 for repurchase agreements. There were $435,162 and $687,203 of securities pledged as of December 31, 2018 and 2017, respectively, for other required pledging purposes.

The maturity distribution of debt securities at December 31, 2018, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations.

Within one year	$ 613,224
Over one year through five years	1,074,255
Over five years through ten years	105,115
Over ten years	61,212
	$ 1,853,806

For the years ended December 31, 2018 and 2017, proceeds from the sales of securities amounted to $25,522 and $308,830, respectively.

NOTE 4 - INTERFUND TRANSACTIONS

The Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. All state funds and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank’s financial statements.

See Note 6 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,169,613 and $1,143,266 at December 31, 2018 and 2017, respectively. Administrative fees paid by the Bank to the North Dakota Guaranteed Student Loan Program were $5,537 and $0 for the years ended December 31, 2018 and 2017.

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In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans held by the Bank at December 31, 2018 and 2017 amounted to $27,646 and $25,131, respectively. Deposits and short term borrowings held by the Bank were $4,995 and $4,001.

The Bank also made transfers to the Rebuilders Loan Program to fund loans to owners of homes damaged in the 2011 floods. These funds will be repaid to the Bank as payments are received from the borrowers. At year end December 31, 2018 and 2017, the Bank had a receivable resulting from these transfers for $10,288 and $13,682, respectively.

LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5

	2018	2017
OTHER ASSETS - Due from other funds (accounts receivable - current, unless noted otherwise)		
Rebuilders Loan Program ($8,410 and $11,754 non-current in 2018 and 2017)	**$ 10,288**	$ 13,682
North Dakota Guaranteed Student Loan Program	**126**	115
Community Water Facility Loan Fund	**27**	28
Department of Human Services	**6**	6
Information Technology Department	**6**	8
Board of University and School Lands	**39**	37
School Construction Assistance Revolving Loan Fund	**226**	178
Medical Facility Infrastructure Loan Program	**57**	54
State Water Commission	**29**	51
Infrastructure Revolving Fund	**89**	41
	$ 10,893	$ 14,200
OTHER LIABILITIES - Due to other funds (trade accounts payable - all current)		
Information Technology Department	**$ 145**	$ 155
Attorney General	**10**	10
North Dakota Guaranteed Student Loan Program	**6**	-
	$ 161	$ 165
OPERATING TRANSFERS - Out		
General Fund	**$ 70,000**	$ 170,000
Infrastructure Revolving Loan Fund	**40,000**	-
PACE Fund	**11,850**	11,500
School Construction Buydown	**3,461**	1,077
Beginning Farmer Revolving Loan Fund	**2,750**	2,500
Ag PACE Fund	**500**	1,800
Industrial Commission	**53**	55
	$ 128,614	$ 186,932
COMPONENT UNITS OF THE STATE OF NORTH DAKOTA		
LONG TERM DEBT		
NDPFA (to fund irrigation and waste management loans - $31 and $28 current in 2018 and 2017)	**$ 61**	$ 120
INTEREST PAYABLE (NDPFA - all current)	**$ 1**	$ 1

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NOTE 5 - LOANS

The composition of the loan portfolio at December 31, 2018 and 2017 is as follows:

	2018	2017
Commercial	**$ 2,040,257**	$ 2,072,367
Student	**1,169,656**	1,391,153
Residential loans	**694,577**	762,480
Agricultural	**665,709**	668,929
	4,570,199	4,894,929
Allowance for credit losses	**(92,750)**	(84,958)
	$ 4,477,449	$ 4,809,971
Current portion	**$ 698,557**	$ 1,032,413

Net unamortized loan premiums and discounts on residential loans totaled $904 and $1,421 as of December 31, 2018 and 2017, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2018 and 2017.

The composition of State Institution loans at December 31, 2018 and 2017 is as follows:

	2018		2017	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 52,000**	**$ 156**	$ 45,500	$ 94
Office of the Adjutant General	**14,778**	**623**	13,762	118
Williston State College	**2,225**	**4**	2,261	3
State Water Commission	**36,672**	**8**	39,728	6
	$ 105,675	**$ 791**	$ 101,251	$ 221
Current portion	**$ 69,003**	**$ 791**	$ 61,523	$ 255

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Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, agricultural, residential real estate, and student loans. The Bank also sub-segments the commercial and agricultural segments into classes based on the associated risks within those segments. Commercial loans are divided into three classes: commercial participations, bank stock, and all other business loans (including PACE). Agricultural loans are also divided into three classes: farm & ranch, farm real estate, and all other farm loans. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Changes in the allowance for credit losses and the related provision expense can materially affect net income.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the statement of net position date. The Bank considers the allowance for credit losses of $92,750 and $84,958 adequate to cover loan losses inherent in the loan portfolio at December 31, 2018 and 2017. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

	2018				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 65,712**	**$ 16,395**	**$ 2,490**	**$ 361**	**$ 84,958**
Charge-offs	**(5,977)**	**-**	**(131)**	**(49)**	**(6,157)**
Recoveries	**1,944**	**1**	**2**	**2**	**1,949**
Provision	**10,939**	**588**	**744**	**(271)**	**12,000**
Ending Balance	**$ 72,618**	**$ 16,984**	**$ 3,105**	**$ 43**	**$ 92,750**

	2017				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 58,267	$ 17,070	$ 2,431	$ 979	$ 78,747
Charge-offs	(5,887)	-	(238)	(459)	(6,584)
Recoveries	787	7	-	1	795
Provision	12,545	(682)	297	(160)	12,000
Ending Balance	$ 65,712	$ 16,395	$ 2,490	$ 361	$ 84,958

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Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

A loan which meets any of the following criteria must be placed in a non-accrual status:

- The following loans on which the principal and interest is 90 or more days past due: Unsecured loans, loans secured by other than real property, loans secured by a mortgage on commercial real estate, loans secured by a farm real estate mortgage, loans secured by a conventional residential real estate mortgage.
- A loan where the borrower has filed for bankruptcy or where the lead bank or the Bank deems itself insecure due to the financial condition of the borrower.
- A loan which the North Dakota Department of Financial Institutions recommends to be placed in a non-accrual status.

A loan which meets the criteria for non-accrual status may be retained in accrual status if it is (1) guaranteed or insured by the state or federal government or secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest and (2) in the process of collection supported by a document source of collection.

A loan which has been placed in a non-accrual status may be returned to an accrual status only if principal and interest are no longer due and unpaid and if current principal and interest appear to be collectable. In addition, the loan must either be secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest or the borrower must demonstrate through a documented repayment plan the ability to discharge the outstanding principal and interest.

The Bank's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

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When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

NOTE 6 - LOAN SALES AND LOAN SERVICING

A summary of the Bank's loan sales during 2018 and 2017 follows:

	2018	2017
Student loans sold on the secondary market	**$ 245,663**	$ -
Residential loans sold on the secondary market	**28,905**	7,453
	274,568	7,453

BND recognized gains on sale of loans of $1,620 and $108 in 2018 and 2017 which are included in noninterest income on the Statements of Revenues, Expenses and Changes in Fund Net Position.

The Bank has contracts to provide servicing of loans for others. These loans are not included in the accompanying statement of net position. The unpaid principal balances of loans serviced for others as of December 31, 2018 and 2017 were as follows:

	2018	2017
Student loans		
North Dakota Student Loan Trust	**$ 1,033**	$ 1,357
Residential loans		
Fannie Mae	**44,523**	46,587
Other state fund loans		
School Construction Assistance Revolving Loan Fund	**188,000**	155,237
Western Area Water	**74,500**	74,500
Infrastructure Revolving Loan Fund	**77,896**	44,722
Medical Facility Infrastructure Loan Fund	**45,836**	43,847
Rebuilders Loan Program	**28,152**	31,567
State Water Commission	**24,137**	22,179
Community Water Facility Loan Fund	**21,344**	22,163
Board of University and School Lands	**13,560**	8,520
Information Technology Department	**4,753**	6,050
Department of Human Services	**4,622**	5,125
Addiction Counseling Internship Loan Program	**123**	114
Workforce Safety	**93**	112
	$ 528,572	$ 462,080

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under the existing residential loan servicing agreement with Fannie Mae, the Bank will indemnify Fannie Mae and hold them harmless against all losses, damages, judgments or legal expenses that result from the Bank's failure in any way to perform its services and duties.

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance 2017	Additions	Retirements	Balance 2018
Capital assets not being depreciated:				
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Capital assets being depreciated:				
Building	**$ 10,317**	**$ -**	**$ -**	**$ 10,317**
Equipment	**736**	**22**	**27**	**731**
Furniture	**777**	**-**	**-**	**777**
Hardware	**173**	**-**	**-**	**173**
Intangibles - software	**6,122**	**121**	**-**	**6,243**
	18,125	**143**	**27**	**18,241**
Less accumulated depreciation for				
Building	**2,852**	**270**	**-**	**3,122**
Equipment	**585**	**107**	**27**	**665**
Furniture	**651**	**43**	**-**	**694**
Hardware	**127**	**32**	**-**	**159**
Intangibles - software	**5,440**	**361**	**-**	**5,801**
Total accumulated depreciation	**9,655**	**813**	**27**	**10,441**
Capital assets being depreciated, net	**$ 8,470**	**$ (670)**	**$ -**	**$ 7,800**

Depreciation and amortization expense on the above assets amounted to $813 in 2018.

Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance 2016	Additions	Retirements	Balance 2017
Capital assets not being depreciated:				
Land	$ 2,449	$ -	$ -	$ 2,449
Capital assets being depreciated:				
Building	$ 10,787	$ -	$ 470	$ 10,317
Equipment	754	-	18	736
Furniture	705	73	1	777
Hardware	173	-	-	173
Intangibles - software	5,890	232	-	6,122
	18,309	305	489	18,125
Less accumulated depreciation for				
Building	2,571	281	-	2,852
Equipment	488	115	18	585
Furniture	581	71	1	651
Hardware	95	32	-	127
Intangibles - software	5,081	359	-	5,440
Total accumulated depreciation	8,816	858	19	9,655
Capital assets, net	$ 9,493	$ (553)	$ 470	$ 8,470

Depreciation and amortization expense on the above assets amounted to $858 in 2017.

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NOTE 8 - DEPOSITS

At December 31, 2018, the scheduled maturities of certificates of deposits are as follows:

One year or less	$	2,559,339
One to three years		90,129
Over three years		85,500
	$	2,734,968

NOTE 9 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

	December 31, 2018			
	Federal Funds Purchased		Repurchase Agreements	
Ending balance	**$**	**271,505**	**$**	**-**
Highest month-end balance		**462,695**		**-**
Average daily balance		**272,206**		**3**
Interest rate as of year-end		**2.375%**		**0.00%**
Weighted average interest rate paid during year		**1.730%**		**2.61%**

	December 31, 2017			
	Federal Funds Purchased		Repurchase Agreements	
Ending balance	$	299,775	$	-
Highest month-end balance		427,620		-
Average daily balance		292,253		-
Interest rate as of year-end		1.375%		0.00%
Weighted average interest rate paid during year		0.960%		0.00%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements has not been provided since this information would not provide any useful information to the users of the financial statements.

Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2018 and 2017 because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2018 and 2017. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

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NOTE 10 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the year ended December 31, 2018 was as follows:

	Balance 2017	Additions	Reductions	Balance 2018	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	**$ 1,263,449**	**$ 6,377,000**	**$ 6,537,074**	**$ 1,103,375**	**$ 724,304**
ND Public Finance Authority	**120**	**-**	**59**	**61**	**31**
Compensated absences	**1,175**	**1,241**	**1,193**	**1,223**	**1,181**
Total long-term liabilities	**$ 1,264,744**	**$ 6,378,241**	**$ 6,538,326**	**$ 1,104,659**	**$ 725,516**

Activity for short and long-term liabilities for the year ended December 31, 2017 was as follows:

	Balance 2016	Additions	Reductions	Balance 2017	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 1,280,303	$ 3,515,001	$ 3,531,855	$ 1,263,449	$ 837,075
ND Public Finance Authority	235	-	115	120	28
Compensated absences	1,159	1,077	1,061	1,175	1,044
Total long-term liabilities	$ 1,281,697	$ 3,516,078	$ 3,533,031	$ 1,264,744	$ 838,147

As of December 31, 2018, a summary, by years, of future minimum payments required to amortize the outstanding short and long-term debt is as follows:

	Principal	Interest	Total
2019	$ 724,335	$ 13,385	$ 737,720
2020	27,560	11,342	38,902
2021	100,793	9,857	110,650
2022	61,035	6,710	67,745
2023	108,295	4,965	113,260
2024-2028	75,677	4,829	80,506
2029-2033	5,741	69	5,810
Totals	$ 1,103,436	$ 51,157	$ 1,154,593

The FHLB long-term advances outstanding at December 31, 2018, mature from October 2019 through October 2029. The FHLB long-term advances have fixed rate interest, ranging from 1.61% to 5.56%. The advances must be secured by minimum qualifying collateral maintenance levels. Residential, student, agriculture, and commercial loans with carrying values of $1,466,515 and $1,608,672 at December 31, 2018 and 2017, respectively, are currently being used as security to meet these minimum levels.

The ND Public Finance Authority long-term borrowing is unsecured. Proceeds from the long-term borrowings are used to make irrigation and livestock waste program loans at Bank of North Dakota.

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NOTE 11 - DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Outflows of Resources and Deferred Inflows of Resources are grouped into one line item on the face of the financial statements. Details as of December 31, 2018 and 2017 are provided as follows:

	2018	2017
Deferred Outflows of Resources		
Unrealized loss on interest rate swap	**$ 2,545**	$ 4,227
Derived from pension	**6,889**	7,901
Derived from other postemployment benefits	**158**	145
	$ 9,592	$ 12,273
Deferred Inflows of Resources		
Unrealized gain on interest rate swaps	**$ 12,846**	$ 6,896
Derived from pension	**1,115**	463
Derived from other postemployment benefits	**61**	59
	$ 14,022	$ 7,418

Notes 12, 13 and 16 of the financial statements contain details of the pension plan, other postemployment benefits, and interest rate swaps, respectively.

NOTE 12 - PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or $25
- 13 to 24 months of service – Greater of two percent of monthly salary or $25
- 25 to 36 months of service – Greater of three percent of monthly salary or $25
- Longer than 36 months of service – Greater of four percent of monthly salary or $25

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018 and 2017, the Bank reported a liability of $17,152 and $16,728, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Bank's proportion of the net pension liability was based on the Bank's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2018, the Bank's portion was 1.016377 percent. At July 1, 2017, the Bank's portion was 1.040712 percent.

For the years ended December 31, 2018 and 2017 the Bank recognized pension expense of $3,488 and $3,229, respectively. At December 31, 2018 and 2017, the Bank reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 45**	**$ 584**
Changes of assumptions	**6,192**	**245**
Net difference between projected and actual earnings on pension plan investments	**-**	**83**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**236**	**203**
Employer contributions subsequent to the measurement date (see below)	**416**	**-**
	$ 6,889	**$ 1,115**

The employer contributions subsequent to the measurement date of $416 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 99	$ 81
Changes of assumptions	6,859	378
Net difference between projected and actual earnings on pension plan investments	225	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	309	4
Employer contributions subsequent to the measurement date (see below)	409	-
	$ 7,901	$ 463

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The employer contributions subsequent to the measurement date of $409 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and were recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2019	$	1,789
2020		1,561
2021		1,286
2022		696
2023		26
Thereafter		-

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary Increases	Service at Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Bank's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Bank's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Bank's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Bank's proportionate share of the net pension liability	$ 23,307	$ 17,152	$ 12,017

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NDPERS issues a publicly available financial statement that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to $5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018 and 2017, the Bank reported a liability of $810 and $826, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured at July 1, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Bank's proportion of the net OPEB liability was based on the Bank's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2018, the Bank's proportion was 1.028534 percent. At July 1, 2017, the Bank's proportion was 1.044284 percent.

For the years ended December 31, 2018 and 2017, the Bank recognized OPEB expense of $106 and $740, respectively. At December 31, 2018 and 2017, the Bank reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 24**	**$ 17**
Changes of assumptions	**67**	**-**
Net difference between projected and actual earnings on OPEB plan investments	**-**	**17**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**-**	**27**
Employer contributions subsequent to the measurement date (see below)	**67**	**-**
	$ 158	**$ 61**

The employer contributions subsequent to the measurement date of $67 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 20
Changes of assumptions	80	-
Net difference between projected and actual earnings on pension plan investments	-	31
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	8
Employer contributions subsequent to the measurement date (see below)	65	-
	$ 145	$ 59

The employer contributions subsequent to the measurement date of $65 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and were recognized as a reduction of the net OPEB liability in the year ended December 31, 2018.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31:		
2019	$	2
2020		2
2021		2
2022		10
2023		9
Thereafter		5

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost of living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.46%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017 HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Bank's proportionate share of the net OPEB liability	$ 1,025	$ 810	$ 626

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued NDPERS financial report.

NDPERS issues a publicly available financial statement that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action – Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2017 and ending June 30, 2019. Following is a summary of legislative action and/or North Dakota Statute in effect:

S.B. 2014, Section 9 – The industrial commission shall transfer to the general fund $140,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota during the biennium beginning July 1, 2017, and ending June 30, 2019. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget after consultation with the Bank of North Dakota president. As of December 31, 2018, the Bank had transferred $140,000.

S.B. 2014, Section 10 – The Bank shall transfer up to $16,000 from its current earnings and undivided profits to the Partnership in Assisting Community Expansion Fund. As of December 31, 2018, the Bank had transferred $11,750.

S.B. 2014, Section 11 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund. As of December 31, 2018, the Bank had transferred $500.

S.B. 2014, Section 12 – The Bank shall transfer up to $1,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund. As of December 31, 2018, the Bank had transferred $100.

S.B. 2014, Section 13 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits to the Beginning Farmer Revolving Loan Fund. As of December 31, 2018, the Bank had transferred $2,750.

S.B. 2014, Section 14 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits for interest rate buydowns on outstanding school construction loans. As of December 31, 2018, the Bank had transferred $4,497.

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S.B. 2014, Section 22 – The Bank of North Dakota's budget approved during the 2015-2017 Session included $17,000 from the assets of the Bank of North Dakota which could be used for the purpose of constructing a North Dakota Financial Center on a site adjacent to the existing building on which the Bank is located. Legislation passed during that Session stated that the Bank may spend the funding only if the Bank's net income, reported in accordance with Financial Accounting Standards Board accounting standards, for calendar year 2015 exceeds $125,000. The Bank's net income exceeded this threshold as of December 31, 2015. During the 2017-2019 Session, language was modified to state that the funding appropriated for this purpose is available through June 30, 2021. Cost incurred through December 31, 2017 totaled $470. No additional costs were incurred through December 31, 2018.

S.B. 2014, Section 28 – In regards to the North Dakota financial center, Section 28 further states that the Bank of North Dakota may not construct a North Dakota financial center on a site adjacent to the existing building on which the Bank of North Dakota is located related to the funding provided in section 1 of chapter 14 of the 2015 Session Laws and identified in sections 2 and 26 of chapter 14 of the 2015 Session Laws until after June 30, 2019. No such construction took place during 2018.

H.B. 1015, Section 20 – The state treasurer and the director of the office of management and budget may, when the balance in the state general fund is insufficient to meet legislative appropriations, borrow from the Bank of North Dakota in an amount that at no time exceeds the total principal amount of $50,000 with principal maturity not to extend beyond the biennium in which the borrowing occurs. The state industrial commission may direct the Bank of North Dakota to make loans to the state general fund at such rates of interest as the industrial commission may prescribe. The state treasurer and the director of the office of management and budget shall establish a repayment plan for the repayment of the principal upon maturity and the interest when due. The office of management and budget shall report to the budget section of the legislative management regarding any loans obtained pursuant to this section. As of December 31, 2018, there was no outstanding loan balance.

H.B. 1018, Section 7 – Session Law from the 2015-2017 biennium (Section 6) states that the State Historical Society may obtain a loan from the Bank of North Dakota in an amount not to exceed $1,250, the sum of which is appropriated to the State Historical Society for the purpose of defraying the expenses of repairs to the Double Ditch historic site. The loan authorization and appropriation in this section is contingent on the State Historical Society being unable to obtain assistance from other sources. Section 6 of H.B. 1018 from 2017-2019 Session Law appropriated $500 from the state disaster relief fund and $500 from a grant from the parks and recreation department. As such, Section 7 of H.B. 1018 from 2017-2019 Session Law would modify the loan amount from $1,250 to $250. As of December 31, 2018, there was no outstanding loan balance.

H.B. 1020, Section 9 – The Bank of North Dakota shall consolidate the $40,000 loan to the western area water supply authority authorized in section 5 of chapter 20 of the 2013 Session Laws, the $50,000 loan to the western area water supply authority authorized in section 2 of chapter 500 of the 2011 Session Laws, and the $25,000 loan from the general fund to the western area water supply authority authorized in section 3 of chapter 500 of the 2011 Session Laws. The terms and conditions of the consolidation loan must be negotiated by the western area water supply authority and the Bank of North Dakota. The interest rate on the $10,000 loan to the western area water supply authority authorized in section 4 of chapter 500 of the 2011 Session Laws must be 2.5 percent on any outstanding balance remaining after the effective date of this Act. The consolidation and interest rate change, as noted above, were both completed during 2017.

H.B. 1020, Section 20 – The Bank of North Dakota shall extend a line of credit not to exceed $75,000 at a rate of one and one-half percent over the three-month London interbank offered rate, but may not exceed three percent to the state water commission. The state water commission shall repay the line of credit from funds available in the resources trust fund, water development trust fund, or other funds, as appropriated by the legislative assembly. The state water commission may access the line of credit, as necessary, to provide funding as authorized by the legislative assembly for water supply projects approved before June 30, 2019, and flood control projects that have approval for funding before June 30, 2019. As of December 31, 2018, there was no outstanding loan balance.

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H.B. 1024, Section 3 – The office of the adjutant general may borrow the sum of $10,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for law enforcement support costs that were incurred after June 30, 2015, related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act, and ending June 30, 2019. The proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of defraying expenses of law enforcement support which were incurred after June 30, 2015, related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act, and ending June 30, 2019. The department of emergency services shall include any amounts borrowed under this section in the request for reimbursement from the federal government related to the state's expenses incurred due to unlawful activity associated with the construction of the Dakota access pipeline. As of December 31, 2018, the outstanding balance was $10,000.

H.B. 1024, Section 7 – It is the intent of the sixty-fifth legislative assembly that the department of emergency services seek reimbursement from the federal government for the costs of responding to unlawful activity associated with the construction of the Dakota access pipeline. It is further the intent of the sixty-fifth legislative assembly that these reimbursements be used to repay the Bank of North Dakota loans authorized by the emergency commission and the legislative assembly, including loans of $17,000 previously authorized by the emergency commission; loans in Senate Bill No. 2174, as approved by the sixty-fifth legislative assembly; and loans authorized in section 3 of this Act, which were all obtained to provide the funding necessary to respond to the unlawful activity associated with the construction of the Dakota access pipeline. As of December 31, 2017, the federal government had reimbursed the State $10,000, all of which was applied to loans as described above, no additional reimbursements were received as of December 31, 2018.

S.B. 2174, Section 1 – The office of the adjutant general may borrow the sum of $8,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for law enforcement support costs related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act and ending June 30, 2019. The proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of defraying expenses of law enforcement support related to unlawful activity associated with the construction of the Dakota access pipeline for the period beginning with the effective date of this Act and ending June 30, 2019. The office of the adjutant general shall request from the legislative assembly a deficiency appropriation sufficient for the repayment of the amount borrowed plus interest. As of December 31, 2018, the outstanding balance was $426.

S.B. 2174, Section 2 – The office of the adjutant general may borrow the sum of $3,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for the purpose of providing a grant to a county that has experienced an emergency related to protest activities, for the period beginning with the effective date of this Act and ending June 30, 2019. Notwithstanding any other provision of law, the proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of providing a grant to a county that has experienced an emergency related to protest activities, for the period beginning with the effective date of this Act and ending June 30, 2019. The grant funds must be used to reimburse the county for extraordinary personnel, equipment, and materials expenditures related to the protest activities which are not otherwise eligible for reimbursement by the state or federal government. The office of the adjutant general shall request from the legislative assembly a deficiency appropriation sufficient for the repayment of the amount borrowed plus interest. As of December 31, 2018, the outstanding balance was $1,819.

H.B. 1178, Section 7 – The information technology department may obtain a loan, subject to budget section approval, from the Bank of North Dakota in an amount not to exceed $15,000 the sum of which is appropriated to the information technology department, for the purpose of defraying the expenses of the statewide interoperable radio network for the biennium beginning July 1, 2017, and ending June 30, 2019. The term of the loan may not exceed six years. The loan authorized in this section must be repaid from funds available in the statewide interoperable radio network fund. As of December 31, 2018, there was no outstanding loan balance.

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S.B. 2021, Section 10 – The state agencies named in this section may borrow from the Bank of North Dakota, the amounts listed below, or so much of the amounts as may be necessary, which are appropriated to the respective agency for the purpose of defraying the expenses of implementing a new electronic payment system for the biennium beginning July 1, 2017, and ending June 30, 2019.

	Borrowing Authority	Outstanding at 12/31/2018
Department of Transportation	$147	$0
Secretary of State's Office	93	$0
Parks and Recreation Dept.	42	$0
Game and Fish Dept.	36	$0
Workforce Safety and Insurance	36	$0
Highway Patrol	21	$0
Total	$375	$0

S.B. 2044, Section 1 – The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54 - 35 - 26 and bills selected by the dynamic fiscal impact bill selection committee. During 2017, the Bank purchased software in the amount of $136 to aide in such analysis. No additional costs were incurred through December 31, 2018.

S.B. 2124, Section 1 – The Bank of North Dakota shall adopt rules to administer, manage, promote, and market the North Dakota achieving a better life experience plan. The Bank shall ensure the North Dakota achieving a better life experience plan is maintained in compliance with internal revenue service standards for qualified state disability expense programs. The Bank, as trustee of the North Dakota achieving a better life experience plan, may impose an annual administrative fee to recover expenses incurred in connection with operation of the plan. Administrative fees received by the Bank are appropriated to the Bank on a continuing basis to be used as provided under this section. Money and assets in North Dakota achieving a better life experience plan accounts or in qualified achieving a better life experience plan accounts in any state may not be considered for the purpose of determining eligibility to receive, or the amount of, any assistance or benefits from local or state means-tested programs.

S.B. 2134, Section 3 – There is appropriated out of any moneys held in reserve in the strategic investment and improvements fund for mineral title disputes, not otherwise appropriated, the sum of $100,000, or so much of the sum as may be necessary, to the commissioner of university and school lands for the purpose of mineral revenue repayments, for the biennium beginning July 1, 2017, and ending June 30, 2019. Upon adoption of the final review findings by the industrial commission, the commissioner of university and school lands shall calculate the amount necessary for mineral revenue repayments based on the final review findings. As soon as a repayment amount for a known recipient is calculated but after the expenditure of the $100,000: (a) The commissioner of university and school lands shall request from the sixty-sixth legislative assembly additional funding sufficient for any remaining mineral revenue or other repayments. (b) If the $100,000 is expended before the repayment of all amounts calculated for known recipients and before additional funds are made available by the sixty-sixth legislative assembly, the Bank of North Dakota shall extend a line of credit, not to exceed $87,000, to the commissioner of university and school lands. The commissioner of university and school lands shall access the line of credit, to the extent necessary, the sum of which is appropriated, for the purpose of mineral revenue and other repayments under this Act for the biennium beginning July 1, 2017, and ending June 30, 2019. The commissioner of university and school lands shall repay the line of credit from funds available in the strategic investment and improvements fund as appropriated by the legislative assembly. As of December 31, 2018, there was no outstanding loan balance.

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S.B. 2178, Section 1 – This bill is an amendment to Section 6-09-49 regarding the Infrastructure Revolving Loan Fund, and provide definition for “essential infrastructure projects”. No new funding was provided, and no other changes to the program were made. The infrastructure revolving loan fund is a special fund in the state treasury from which the Bank of North Dakota shall provide loans to political subdivisions for essential infrastructure projects. The Bank shall administer the infrastructure revolving loan fund. The maximum term of a loan made under this section is thirty years. A loan made from the fund under this section must have an interest rate that does not exceed two percent per year. For purposes of this section, "essential infrastructure projects" means capital construction projects for the following: (a) New or replacement of existing water treatment plants; (b) New or replacement of existing wastewater treatment plants; (c) New or replacement of existing sewer lines and water lines; and (d) New or replacement of existing storm water and transportation infrastructure, including curb and gutter construction. As of December 31, 2018, outstanding loans totaled $77,896.

S.B. 2272, Section 3 – In addition to any construction loans made available under section 15.1-36-02, the Bank of North Dakota may provide up to $250,000 to eligible school districts for school construction loans until June 30, 2017. After June 30, 2017, no new loans may be provided under this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The term of a loan under this section is twenty years, unless a shorter term is requested by the board of a school district in its application. The interest rate on a loan under this section may not exceed two percent, until July 1, 2025. Thereafter, the interest rate on the loan is subject to change. The maximum loan amount to which a school district is entitled under this section is $20,000. As of December 31, 2018, the outstanding balance was $82,263.

S.B. 2272, Section 4 – Provides for the creation of the School Construction Assistance Revolving Loan Fund. The school construction assistance revolving loan fund is a special revolving loan fund administered by the Bank of North Dakota. The fund consists of all moneys appropriated or transferred to the fund by the legislative assembly and all interest or other earnings of the fund, and all repayments of loans made from the fund. Moneys in the fund, interest upon the moneys in the fund, and payments to the fund of principal and interest are appropriated to the Bank of North Dakota on a continuing basis for the purpose of providing low-interest school construction loans and for paying administrative costs, in accordance with this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The maximum loan amount for which a school district may qualify is $10,000. The term of the loan is twenty years, unless the board of the school district requests a shorter term in the written loan application. The interest rate of the loan may not exceed two percent per year. The Bank may adopt policies and establish guidelines to administer this loan program in accordance with this section. The Bank of North Dakota may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administration costs which may not exceed one - half of one percent of the amount of the interest payment. The Bank of North Dakota shall deposit principal and interest payments made by school districts for loans under this section in the school construction assistance revolving loan fund. The Bank of North Dakota shall arrange for the conduct of an annual audit of the school construction assistance revolving loan fund, the cost of which must be paid from the fund and which must be conducted by an independent accounting firm. As of December 31, 2018, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $188,000.

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S.B. 2272, Section 13 – The office of management and budget shall transfer the sum of $75,000 from the foundation aid stabilization fund to the school construction assistance revolving loan fund during the period beginning with the effective date of this Act, and ending June 30, 2019. Of the $75,000 transferred to the school construction assistance revolving loan fund, up to $50,000 must be used to repay the Bank of North Dakota for the outstanding principal balance on a portion of the loans issued under section 15.1-36-06 for the purpose of transferring a portion of the loans issued under section 15.1-36-06 from the Bank of North Dakota to the school construction assistance revolving loan fund. The remaining amount transferred to the school construction assistance revolving loan fund is available for new school construction loans. As of December 31, 2017, the office of management and budget transferred $75,000 to the school construction assistance revolving loan fund. As of December 31, 2018 $43,386 of the $50,000 earmarked for Bank of North Dakota repayment has been used.

S.B. 2311, Section 1 – The Bank of North Dakota shall provide a letter of credit to a city, in the northwest corner of the state with a population over twenty thousand residents, which is constructing an airport and is subject to the bonding requirements under section 52-04-06.1. The letter of credit shall cover the length of the construction term not to exceed five years. The Bank of North Dakota shall charge a one-time fee of no more than three quarters of one percent of the total amount of the letter of credit. The city obtaining the letter of credit assumes all liability for the letter of credit, the fee to be paid to the Bank of North Dakota, and any other requirements under section 52-04-06.1. As of December 31, 2018, the letter of credit has been provided.

H.B. 1008, Section 4 – The Bank of North Dakota shall transfer from the Beginning Farmer Revolving Loan Fund to the Public Service Commission the sum of $900, or so much of the sum as may be necessary, included in the estimated income line item in section 1 of this Act to pay for costs associated with a rail rate complaint case. Transfers must be made during the biennium beginning July 1, 2017, and ending June 30, 2019, upon order of the Commission. If any amounts are spent pursuant to this section, the Public Service Commission shall reimburse the Beginning Farmer Revolving Loan Fund using amounts available from damages or proceeds received, net of legal fees, from a successful outcome of a rail complaint case. As of December 31, 2018, the Bank had transferred $0.

S.B. 2379, Section 4 – During the North Dakota Special Legislative Session held in August 2016, Senate Bill 2379 was passed that states that if the Office of Management and Budget (OMB) determines the State General Fund will not have a projected positive June 30, 2017 balance, the Industrial Commission shall transfer $100,000, or so much of the sum as may be necessary, from the earnings and accumulated and undivided profits of BND to the State General Fund. The monies must be transferred in amounts and at such times as requested by OMB. The sum of the amounts transferred may not exceed the lesser of $100,000 or the amount necessary to provide for a positive June 30, 2017 General Fund Balance. During the 2017-2019 Regular Legislative Session, H.B. 1024, Section 9 amended this Special Session language to state the following: During the period beginning with the effective date of this Act and ending June 30, 2017, the Industrial Commission shall transfer $100,000 from the earnings and accumulated profits of the Bank of North Dakota to the State General Fund. The monies must be transferred in amounts and at such times as requested by the Director of the Office of Management and Budget. As of December 31, 2017, the Bank had transferred $100,000.

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State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the Water Development Trust Fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the Resources Trust Fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the Trustee to the Fund established for paying principal and interest on the bonds under a trust indenture. If the Bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank. As of December 31, 2018, the Bank has provided no such transfers.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400. The Bank may have no more than $8,000 in outstanding loan guarantees under this Program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2018 and 2017, the Bank has guarantees outstanding totaling $807 and $827, respectively, and had no guarantee commitments outstanding, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2018 and 2017.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The Program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85% of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as defined by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan up to $500. The term of the guarantee may not exceed five years. As of December 31, 2018 and 2017, the Bank has guarantees outstanding totaling $8,070 and $5,927, respectively, and had guarantee commitments outstanding of $613 and $674, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2018 and 2017.

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NOTE 15 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 14. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2018 and 2017, the following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount	
	2018	2017
Commitments to extend credit	**$ 861,421**	$ 812,606
Financial standby letters of credit	**412,614**	389,664
Guarantees provided	**9,490**	7,428

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 and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank has segmented this category into three components: (1) letters of credit, (2) confirming letters of credit, and (3) letters of credit pledged for public deposits to North Dakota financial institutions.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from one month to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from 17 months to 29 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2018 and 2017 were $106,834 and $104,807, respectively.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2018 and 2017 were $3,525 and $2,857, respectively.

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Letters of credit pledged for public deposits to North Dakota financial institutions are issued to support public borrowing arrangements. These letters are fully collateralized by a pool of loans pledged to the Bank. These agreements generally have terms of 12 months or less. Financial standby letters for public deposits by North Dakota banks totaled $302,255 and $282,000 at December 31, 2018 and 2017, respectively. The likelihood of funding any of these letters of credit is also considered to be remote. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

The Bank has not recorded a contingent liability related to off-balance-sheet activity as of December 31, 2018 and 2017.

NOTE 16 - INTEREST RATE SWAP CONTRACTS

Objective of the Interest Rate Swap

The Bank has outstanding interest rate swap agreements with a notional amount $350,000 to convert variable rate federal funds and variable LIBOR-indexed deposits into fixed-rate instruments over the term of the contract.

Terms

On June 5, 2014 ("June 2014 Swap") the Bank entered into a swap agreement which matures on June 1, 2029, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.861% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On April 14, 2015 ("April 2015 Swap") the Bank entered into a swap agreement which matures on May 1, 2030, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.920% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On August 11, 2016 ("August 2016 Swap") the Bank entered into a swap agreement which matures on September 1, 2031, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.483% and receives a variable payment based on the USD-1 MONTH LIBOR-BBA interest rate.

On April 5, 2017 ("April 2017 Swap") the Bank entered into a swap agreement which matures on May 1, 2032, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.390% and receives a variable payment based on the USD-1 MONTH LIBOR-BBA interest rate.

On June 15, 2017 ("June 2017 Swap") the Bank entered into a swap agreement which matures on July 1, 2032, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.985% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On March 27, 2018 ("March 2018 Swap") the Bank entered into a swap agreement which matures on April 1, 2033, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.468% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On June 28, 2018 ("June 2018 Swap") the Bank entered into a swap agreement which matures on July 1, 2033, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.515% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

(continued on next page)

Fair Value

At December 31, 2018, the June 2014, March 2018 and June 2018 swaps had negative fair values of $2,180, $45, and $320, respectively, because interest rates have declined since the swaps were executed. The April 2015, August 2016, April 2017 and June 2017 swaps had positive fair values of $2,492, $6,240, $1,404 and $2,710, respectively, because interest rates have increased since the swaps were executed. Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

At December 31, 2017, the June 2014 and April 2017 swaps had negative fair values of $4,101 and $126, respectively, because interest rates have declined since the swaps were executed. The April 2015, August 2016 and June 2017 swaps had positive fair values of $894, $5,222, and $780, respectively, because interest rates have increased since the swaps were executed. Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Credit Risk

At December 31, 2018 and 2017, the Bank was not exposed to material credit risk because each counterparty is required to fully collateralize the fair value of the swaps within $250 of daily mark-to-market valuations by depositing funds with the other counterparty.

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $12,150 in cash pledged under collateral arrangements related to the interest rate swaps at December 31, 2018, to satisfy the collateral requirements.

Amongst all swap counterparties for the transactions noted above, the Bank held a net $2,600 in cash under collateral arrangements related to the interest rate swaps at December 31, 2017, to satisfy the collateral requirements.

Interest Rate Risk

The Bank is exposed to interest rate risk on its swap agreements. On its pay-fixed, receive variable interest rate swaps, the Bank's net payment increases as the USD-FEDERAL FUNDS-H.15 and USD-1 MONTH LIBOR-BBA interest rates decrease.

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Termination Risk

Either the Bank or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract. Termination could result in the Bank being required to make a payment of the fair value of the swap to counterparty.

The following table summarizes the derivative financial instruments utilized at December 31, 2018:

		Fair Value		Changes in Fair Value	
	Amount	Classification	Amount	Classification	Amount
June 2014 Swap	**$ 50,000**	**Other liabilities**	**$ (2,180)**	**Deferred outflow**	**$ 1,921**
April 2015 Swap	**$ 50,000**	**Other assets**	**$ 2,492**	**Deferred inflow**	**$ 1,598**
August 2016 Swap	**$ 50,000**	**Other assets**	**$ 6,240**	**Deferred inflow**	**$ 1,018**
April 2017 Swap	**$ 50,000**	**Other assets**	**$ 1,404**	**Deferred inflow**	**$ 1,530**
June 2017 Swap	**$ 50,000**	**Other assets**	**$ 2,710**	**Deferred inflow**	**$ 1,930**
March 2018 Swap	**$ 50,000**	**Other liabilities**	**$ (45)**	**Deferred outflow**	**$ (45)**
June 2018 Swap	**$ 50,000**	**Other liabilities**	**$ (320)**	**Deferred outflow**	**$ (320)**

The following table summarizes the derivative financial instruments utilized at December 31, 2017:

		Fair Value		Changes in Fair Value	
	Amount	Classification	Amount	Classification	Amount
June 2014 Swap	$ 50,000	Other liabilities	$ (4,101)	Deferred outflow	$ 555
April 2015 Swap	$ 50,000	Other assets	$ 894	Deferred inflow	$ 67
August 2016 Swap	$ 50,000	Other assets	$ 5,222	Deferred inflow	$ 5,222
April 2017 Swap	$ 50,000	Other liabilities	$ (126)	Deferred outflow	$ (126)
June 2017 Swap	$ 50,000	Other assets	$ 780	Deferred inflow	$ 780

(continued on next page)

Swap Payments and Hedged Debt

Using rates as of December 31, 2018, the interest expense of the variable rate federal funds, variable rate 1 month LIBOR and the net swap payments are as follows. As rates vary, the federal fund and 1 month LIBOR interest expense and the net swap payments will vary.

	Pay Fixed	Receive Variable		
Year ended December 31:	Contract Interest	Federal Fund Interest	1-Month LIBOR Interest	Interest Rate Swap, net
2019	$ 7,811	$ 6,000	$ 2,520	$ (709)
2020	7,811	6,000	2,520	(709)
2021	7,811	6,000	2,520	(709)
2022	7,811	6,000	2,520	(709)
2023	7,811	6,000	2,520	(709)
2024-2028	39,065	30,000	12,600	(3,535)
2029-2033	22,219	16,800	7,560	(2,141)
	$ 100,339	$ 76,800	$ 32,760	$ (9,221)

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Fair Value Hierarchy

Under GASB Statement No. 72, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

(continued on next page)

Determination of Fair Value

Under GASB Statement No. 72, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is Bank policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities

Securities consist primarily of Federal agencies and mortgage backed securities. Securities are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded in an active market; examples would include U.S. Treasury securities and Agency securities. Level 2 securities as defined above would include mortgage-backed securities, collateralized mortgage obligations, and state and political subdivision securities.

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the settlement value adjusted by estimated nonperformance risk.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017.

(continued on next page)

	2018			
	Total	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
ASSETS AND DEFERRED OUTFLOWS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	**$ 153,591**	**$ -**	**$ 153,591**	**$ -**
Collateralized mortgage obligations				
Agency	**517,387**	**-**	**517,387**	**-**
Non-agency	**23**	**-**	**23**	**-**
Agency bonds	**1,181,805**	**1,181,805**	**-**	**-**
Municipal bonds	**1,000**	**-**	**1,000**	**-**
Interest rate swap	**12,846**	**-**	**12,846**	**-**
Totals	**$ 1,866,652**	**$1,181,805**	**$ 684,847**	**$ -**
LIABILITIES AND DEFERRED INFLOWS				
Interest rate swap	**$ 2,545**	**$ -**	**$ 2,545**	**$ -**
Totals	**$ 2,545**	**$ -**	**$ 2,545**	**$ -**

	2017			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS AND DEFERRED OUTFLOWS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 155,346	$ 1,382	$ 153,964	$ -
Collateralized mortgage obligations				
Agency	418,700	-	418,700	-
Non-agency	44	-	44	-
Agency bonds	1,005,239	1,005,239	-	-
US Treasuries	19,968	19,968	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swap	6,896	-	6,896	-
Totals	$ 1,607,193	$ 1,026,589	$ 580,604	$ -
LIABILITIES AND DEFERRED INFLOWS				
Interest rate swap	$ 4,227	$ -	$ 4,227	$ -
Totals	$ 4,227	$ -	$ 4,227	$ -

(continued on next page)

NOTE 18 - RISK MANAGEMENT

The Bank 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 participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and 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 reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

(In Thousands)

Schedule of Bank's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
1. Bank's proportion of the net pension liability (asset)	**1.016377%**	1.040712%	0.997523%	0.997523%	0.995461%
2. Bank's proportionate share of the net pension liability (asset)	**$17,152**	$16,728	$9,722	$6,769	$6,245
3. Bank's covered-employee payroll	**$10,441**	$10,624	$10,053	$8,868	$8,288
4. Bank's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	**164.28%**	157.45%	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	**62.80%**	61.98%	70.46%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

Schedule of Bank Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
1. Statutorily required contribution	**$769**	$770	$728	$674	$590
2. Contribution in relation to the statutorily required contribution	**($757)**	($762)	($707)	($717)	($674)
3. Contribution deficiency (excess)	**$12**	$8	$21	($43)	($84)
4. Bank's covered-employee payroll	**$10,441**	$10,624	$10,053	$8,868	$8,288
5. Contributions as a percentage of covered-employee payroll	**7.25%**	7.17%	7.03%	8.09%	8.13%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

(In Thousands)

Schedule of Bank's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2018	2017
1. Bank's proportion of the net OPEB liability (asset)	**1.028534%**	1.044284%
2. Bank's proportionate share of the net OPEB liability (asset)	**$810**	$826
3. Bank's covered-employee payroll	**$11,254**	$11,297
4. Bank's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	**7.20%**	7.31%
5. Plan fiduciary net position as a percentage of the total OPEB liability	**61.89%**	59.78%

*Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2018 and 7/1/2017.

Schedule of Bank Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2018	2017
1. Statutorily required contribution	**$132**	$131
2. Contribution in relation to the statutorily required contribution	**($121)**	($122)
3. Contribution deficiency (excess)	**$11**	$9
4. Bank's covered-employee payroll	**$11,254**	$11,297
5. Contributions as a percentage of covered-employee payroll	**1.08%**	1.08%

*Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2018 and 7/1/2017.

NOTE 1 - CHANGES OF ASSUMPTIONS

Amounts reported in 2018 for the net pension liability and OPEB liability reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **EXHIBIT A-1**
YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest subsidy paid		$ (25,680)
Special allowance		5,483
Excess interest		(15,228)
Net special allowance received/(paid)		(9,745)
Guaranteed Student Loans:		
Previous year balance of loans on which there are continuing compliance requirements		247,845,660
Total guaranteed student loans (Note 2)		247,845,660
Total Department of Education		247,810,235
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Program:		
Federal Housing Administration (FHA) Loan Program	14.117	
Guaranteed Loans:		
Previous year balance of loans on which there are continuing compliance requirements		402,687,899
FHA loan principal disbursed during the fiscal year		19,612,254
Total guaranteed loans (Note 3)		422,300,153
Total Department of Housing and Urban Development		422,300,153
DEPARTMENT OF DEFENSE		
Direct Program:		
Veteran's Benefits Administration (VA) Loan Program	64.114	
Guaranteed Loans:		
Previous year balance of loans from on which there are continuing compliance requirements		239,404,076
VA loan principal disbursed during the fiscal year		14,774,430
Total guaranteed loans (Note 4)		254,178,506
Total Department of Defense		254,178,506
DEPARTMENT OF JUSTICE		
Direct Program:		
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Grant for loan forgiveness		31,618
Department of Justice		31,618
TOTAL FEDERAL AWARDS		$ 924,320,512

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. No federal financial assistance has been provided to a subrecipient.

The Bank does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

NOTE 2 - There was no outstanding balance of guaranteed student loans with continuing compliance requirements under the student loan program as of December 31, 2018. All Federal student loans were sold during the year.

NOTE 3 - The outstanding balance of guaranteed FHA residential loans on which there are continuing compliance requirements totaled $359,540,502 as of December 31, 2018.

NOTE 4 - The outstanding balance of guaranteed VA residential loans on which there are continuing compliance requirements totaled $215,731,113 as of December 31, 2018.

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

To the Industrial Commission
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Bank of North Dakota's basic financial statements, and have issued our report thereon dated April 2, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank of North Dakota'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 Bank of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Bank of North Dakota's Response to Finding
The Bank of North Dakota's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Bank of North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Bank of North Dakota'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.

Eide Bailly LLP

Bismarck, North Dakota
April 2, 2019

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

The Industrial Commission
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on Compliance for Each Major Federal Program
We have audited the Bank of North Dakota's, an enterprise fund of the State of North Dakota, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bank of North Dakota's major federal programs for the year ended December 31, 2018. The Bank of North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of the Bank of North Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bank of North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Bank of North Dakota's compliance.

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Opinion on Each Major Federal Program
In our opinion, the Bank of North Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance
Management of the Bank of North Dakota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bank of North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
April 2, 2019

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over federal programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of major programs:

Name of Federal Program	CFDA number
Federal Family Education Loan Program	84.032
Veteran's Benefits Administration (VA) Loan Program	64.114

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	Yes

Section II – Financial Statement Findings

2018-001 **Material Adjustment**
Material Weakness in Internal Control over Financial Reporting

Criteria: Proper internal controls include controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: During the course of our engagement, we proposed a material audit adjustment to the Bank's recorded account balances in the areas of loans, federal funds purchased and repurchase agreements, and deposits, which if not recorded, would have resulted in a material misstatement of the Bank's financial statements.

Cause: An incorrect account was identified for the daily sweep of federal funds which resulted in the misstatement to the account balances.

Effect: The need for this adjustment indicates a risk that the Bank's interim financial information may not be materially correct, which may affect management decisions made during the year.

Recommendation: We recommend the Bank review internal controls to ensure the controls in place will prevent, or detect and correct, misstatements on a timely basis.

Views of Responsible Officials: Management agrees with the finding. The Bank will review its internal controls with respect to the daily sweep of federal funds to ensure accurate financial reporting. The review of internal controls will be completed by September 30, 2019

Section III – Federal Award Findings and Questioned Costs

No federal award findings or questioned costs reported in the current year.

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Bank of North Dakota
Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee
Year Ended December 31, 2018

The Industrial Commission
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the December 31, 2018 audit of Bank of North Dakota 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?

   As discussed on page 67, there was one internal control deficiency identified as a result of the financial statement audit. There were no internal control deficiencies identified as a result of the audit of the Bank's compliance with its major federal programs.

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

   No

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

   There were no prior audit findings or recommendations related to the financial statement audit. There was one internal control deficiency identified as a result of the audit of the Bank's compliance with its major federal programs in the prior year which was corrected in the current year.

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

   No

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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 these estimates.

   Bank of North Dakota has a significant accounting estimate in their determination of the allowance for credit losses. The allowance for credit losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio at the statement of net position date. The allowance for credit losses is based on 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. 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.

   The Bank of North Dakota also has a significant estimate in their determination of the net pension liability. The net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

   The following material misstatement was identified as a result of the audit procedures performed which was brought to the attention of, and corrected by, management:

Deposits	$19,949,000	
Federal funds purchased and repurchase agreements	3,975,000	
Loans		$23,924,000

   To correct the misstatement related to purchase of federal funds.

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

   None

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

   None

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

   None

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

   None

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

   Based on the audit procedures performed, Bank of North Dakota's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

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

Eide Bailly LLP

Bismarck, North Dakota
April 2, 2019

BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-1
BIENNIUM ENDED JUNE 30, 2019
(In Thousands)

	Biennium Appropriation July 1, 2017 to June 30, 2019	Expenditures for Year Ended June 30, 2018	Unexpended Appropriations
APPROPRIATED EXPENDITURES:			
Operating Expenses	$ 58,489	$ 25,309	$ 33,180
Capital Assets	810	115	695
	$ 59,299	$ 25,424	$ 33,875
* **Expenditures Reconciliation:**			
Total expenses per financial statements-			
Interest expense		$ 46,441	
Provision for loan losses		12,000	
Operating expenses		32,028	
		90,469	
Non-appropriated expenditures:			
Interest expense		46,441	
Provision for loan losses		12,000	
Correspondent fees		800	
Depreciation and amortization		813	
Other real estate expense		328	
Loan collection expenses		521	
Loan servicing fee expense		915	
Other expenses		373	
Nonappropriated expenditures		62,191	
Equipment capitalized		22	
Facility capitalized		-	
Hardware capitalized		-	
Software capitalized		121	
Salaries capitalized		-	
		143	
Timing differences for appropriated expenditures:			
July 1, 2018 to December 31, 2018		(19,278)	
July 1, 2017 to December 31, 2017		16,281	
		(2,997)	
Appropriated Expenditures for the fiscal year		$ 25,424	

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA
DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-2
YEAR ENDED JUNE 30, 2018

	2018	Total
Operating		
Salaries and wages	**$ 11,814**	$ 11,814
Social security	**883**	883
Hospital insurance	**2,528**	2,528
State retirement contribution	**1,384**	1,384
Vacation and sick leave benefits	**98**	98
Unemployment insurance and worker's compensation premium	**15**	15
Building expenses	**318**	318
Furniture and equipment expenses	**83**	83
Processing and development expenses	**1,619**	1,619
Software/IT supplies	**218**	218
Contractual services/repairs	**2,955**	2,955
IT equipment < $5,000	**189**	189
Telephone	**239**	239
Marketing	**569**	569
Professional services	**1,015**	1,015
Travel	**198**	198
Dues and publications	**217**	217
Supplies	**116**	116
Postage	**388**	388
Other operating expenses	**463**	463
	25,309	25,309
Capital assets	**115**	115
	$ 25,424	$ 25,424

CPAs & BUSINESS ADVISORS

The Industrial Commission
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements, prepared following the Governmental Accounting Standards Board (GASB) accounting standards, of the Bank of North Dakota as of and for the year ended December 31, 2018, and have issued our report thereon dated April 2, 2019. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated October 29, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the Bank of North Dakota complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bank of North Dakota's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Bank of North Dakota solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the Bank of North Dakota's major federal program compliance, is to express an opinion on the compliance for each of the Bank of North Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the Bank of North Dakota's internal control over compliance.

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

We have provided our comments regarding internal controls during our audit in our 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* dated April 2, 2019. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated April 2, 2019.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Bank of North Dakota is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

Management's estimate of the allowance for credit losses is based on 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. 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.

Management's estimate of the net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Bank of North Dakota's financial statements relate to Note 5 – Loans and Note 12 – Pension Plan.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of the uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or dislcosures, and the financial statements as a whole.

The following misstatements that were identified as a result of the audit procedures performed were brought to the attention of, and corrected by, management:

Deposits	$19,949,000	
Federal funds purchased and repurchase agreements	3,975,000	
Loans		$23,924,000

To correct the misstatement related to purchase of federal funds.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated April 2, 2019.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Modification of the Auditor's Report

We have made the following modifications to our auditor's report to add Emphasis of Matter paragraphs:

Reporting Entity
As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2018 and 2017 and the changes in its financial position and 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.

Financial Statement Presentation
As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

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

Eide Bailly LLP

Bismarck, North Dakota
April 2, 2019