



Financial Statements  
June 30, 2018 and 2017

# Rebuilders Loan Program

## REBUILDERS LOAN PROGRAM

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Rebuilders Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program'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 Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program, as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Program 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 Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2018 on our consideration of the Program'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 Program'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 Program's internal control over financial reporting and compliance.



Bismarck, North Dakota  
October 4, 2018

**REBUILDERS LOAN PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018, 2017 AND 2016**

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The management discussion and analysis of the Rebuilders Loan Program's (the Program) financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2018, 2017 and 2016. Please read it in conjunction with the financial statements of the Program.

**FINANCIAL HIGHLIGHTS:**

The North Dakota Legislature appropriated \$50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The Industrial Commission approved the Rebuilders Loan Guidelines on November 21, 2011. The first \$30,000,000 for this program was transferred from Bank of North Dakota's undivided profits. The remaining \$20,000,000 was funded from the General Fund.

The purpose of this Program is to help owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward counties. Residents with flood-damaged homes that had been granted a tax assessment reduction in 2011 were eligible to apply for a loan of up to \$30,000 at a 1% interest rate for 20 years. Payments were not required for 24 months; however, interest accrued during this time. Applications were not accepted after September 30, 2012.

The North Dakota Legislature amended the Rebuilders Loan Program in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There was no deferral of principal and interest payments for a loan for nonowner-occupied property. Applications were not accepted after September 30, 2013. A supplemental loan up to \$20,000 may have been made to a homeowner who had received an initial loan under certain conditions. Supplemental loan applications were not accepted after December 31, 2013.

After June 30, 2013, repayments to the Program shall be transferred to replenish \$30,000,000 of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the \$30,000,000 used to replenish the Bank's undivided profits.

The Bank of North Dakota administers the loan Program. The Bank deducts a one-half percent service fee for administering the Program for the Bank and originating financial institutions.

There were no new loans made by the Program during the fiscal years 2018, 2017 and 2016. There were no loans pending as of June 30, 2018. The application period has ended.

There are currently 1,258 loans outstanding. As of June 30, 2018, the gross amount of outstanding loans is \$29,768,745 with an allowance for credit losses of \$2,977,000 for net loans of 26,791,745. As of June 30, 2017, the gross amount of outstanding loans was \$33,413,595 with an allowance for credit losses of \$3,341,000 for net loans of \$30,072,595. As of June 30, 2016, the gross amount of outstanding loans was \$37,876,086 with an allowance for credit losses of \$3,788,000 for net loans of \$34,088,086.

**REBUILDERS LOAN PROGRAM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018, 2017 AND 2016**

REQUIRED FINANCIAL STATEMENTS:

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

**CONDENSED STATEMENTS OF NET POSITION**  
**JUNE 30, 2018, 2017 AND 2016**

	(In Thousands)		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
CURRENT ASSETS			
Cash deposits	\$ 597	\$ 681	\$ 606
Loans, current portion	1,894	1,905	2,007
Interest receivable	26	29	47
Total current assets	<u>2,517</u>	<u>2,615</u>	<u>2,660</u>
NONCURRENT ASSETS			
Loans, noncurrent portion, net	<u>24,898</u>	<u>28,168</u>	<u>32,081</u>
Total noncurrent assets	<u>24,898</u>	<u>28,168</u>	<u>32,081</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
Total assets and deferred outflows	<u>\$ 27,415</u>	<u>\$ 30,783</u>	<u>\$ 34,741</u>
CURRENT LIABILITIES	\$ 1,909	\$ 1,901	\$ 2,034
NONCURRENT LIABILITIES	<u>25,291</u>	<u>28,735</u>	<u>32,545</u>
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION - UNRESTRICTED	<u>215</u>	<u>147</u>	<u>162</u>
Total liabilities, deferred inflows and net position	<u>\$ 27,415</u>	<u>\$ 30,783</u>	<u>\$ 34,741</u>

(continued on next page)

**REBUILDERS LOAN PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018, 2017 AND 2016**

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*Cash Deposits*

Cash deposits decreased \$84 thousand from June 30, 2017 to June 30, 2018 due to principal repayments to the Bank of North Dakota. Cash deposits increased \$75 thousand from June 30, 2016 to June 30, 2017 due to principal repayments received from borrowers. Cash deposits decreased \$71 thousand from June 30, 2015 to June 30, 2016 due to repayments to the Bank of North Dakota.

*Loans*

There were no loans made during the fiscal year 2018, 2017 or 2016. There were 37 delinquent loans as of June 30, 2018. There were 15 loan charge-offs during 2018 totaling \$229,173.

*Noncurrent Liabilities*

Noncurrent liabilities decreased \$3.4 million from June 30, 2017 to June 30, 2018, decreased \$3.8 million from June 30, 2016 to June 30, 2017, and decreased \$4 million from June 30, 2015 to June 30, 2016 due to repayments to the Bank.

*Net Position*

North Dakota Legislative action in 2013 required that loan repayments received by the Program first be used to replenish the Bank's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. Therefore, net position of the Program is minimal and intended for payments of legal expenses and an annual audit of the Program.

**REBUILDERS LOAN PROGRAM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018, 2017 AND 2016**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2018, 2017 AND 2016**

	(In Thousands)		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUES	\$ 314	\$ 335	\$ 405
OPERATING EXPENSES	<u>109</u>	<u>571</u>	<u>304</u>
OPERATING INCOME/(LOSS)	205	(236)	101
NONOPERATING INCOME/(LOSS)	(137)	221	(115)
CHANGE IN NET POSITION	68	(15)	(14)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>147</u>	<u>162</u>	<u>176</u>
TOTAL NET POSITION END OF YEAR	<u>\$ 215</u>	<u>\$ 147</u>	<u>\$ 162</u>

*Revenue*

Revenue is from interest accrued on loans outstanding. The interest rate earned on these loans is 1%.

*Expenses*

The provision for credit loss was (\$215,211), \$221,909, and (\$113,683) for the years ended June 30, 2018, 2017, and 2016, respectively.

Service fee expenses of \$312,266, \$334,147, and \$404,312 have been recorded during the years ended June 30, 2018, 2017, and 2016, respectively.

Other expenses are for the independent audit of the financial records and reimbursement to the Bank for legal expenses for the Program.



**REBUILDERS LOAN PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018, 2017 AND 2016**

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*Non-Operating Income/(Loss)*

During 2018, non-operating loss consisted primarily of loss relating to reinstatement of debt for the increase in the liability to the State of North Dakota General Fund. During 2017, non-operating income consisted primarily of income relating to cancellation of debt for the decrease in the liability to the State of North Dakota General Fund. During 2016, non-operating loss consisted primarily of loss relating to reinstatement of debt for the increase in the liability to the State of North Dakota General Fund.

**ECONOMIC FACTORS AND FUTURE OUTLOOK**

North Dakota Legislative action in 2013 required that loan repayments received by the Program first be used to replenish the Bank of North Dakota's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. As of June 30, 2018, the Program owed the Bank \$12,232,342 and owed the General Fund \$14,952,271.

**CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Program's finances and to demonstrate the Program's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

**REBUILDERS LOAN PROGRAM**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	\$ 596,806	\$ 681,524
Loans, current portion	1,894,096	1,904,969
Interest receivable	26,131	28,851
	<u>2,517,033</u>	<u>2,615,344</u>
Total current assets		
<b>NONCURRENT ASSETS</b>		
Loans, net of current portion and allowance for credit losses of \$2,977,000 in 2018 and \$3,341,000 in 2017	24,897,649	28,167,626
	<u>24,897,649</u>	<u>28,167,626</u>
Total noncurrent assets		
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	-	-
Total assets and deferred outflows	<u>\$ 27,414,682</u>	<u>\$ 30,782,970</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to the Bank of North Dakota	\$ 1,900,235	\$ 1,892,198
Service fee payable	8,582	8,922
	<u>1,908,817</u>	<u>1,901,120</u>
Total current liabilities		
<b>NONCURRENT LIABILITIES</b>		
Due to the Bank of North Dakota	10,338,246	13,919,233
Due to the State of North Dakota General Fund	14,952,271	14,815,785
	<u>25,290,517</u>	<u>28,735,018</u>
Total noncurrent liabilities		
Total liabilities	<u>27,199,334</u>	<u>30,636,138</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	-	-
<b>NET POSITION - UNRESTRICTED</b>		
	<u>215,348</u>	<u>146,832</u>
Total liabilities, deferred inflows and net position	<u>\$ 27,414,682</u>	<u>\$ 30,782,970</u>

**REBUILDERS LOAN PROGRAM**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Interest on loans	\$ 313,414	\$ 334,820
OPERATING EXPENSES		
Service fees	312,266	334,147
Other expenses	11,511	15,308
Provision for credit loss	(215,211)	221,909
	<u>108,566</u>	<u>571,364</u>
OPERATING INCOME/(LOSS)	<u>204,848</u>	<u>(236,544)</u>
NONOPERATING REVENUES		
Investment Income	154	183
Cancellation of debt income - State General Fund	-	221,053
	<u>154</u>	<u>221,236</u>
NONOPERATING EXPENSES		
Reinstatement of debt expense - State General Fund	(136,486)	-
NONOPERATING INCOME/(LOSS)	<u>(136,332)</u>	<u>221,236</u>
CHANGE IN NET POSITION	68,516	(15,308)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>146,832</u>	<u>162,140</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 215,348</u>	<u>\$ 146,832</u>

**REBUILDERS LOAN PROGRAM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Service fees paid to Bank of North Dakota	\$ (140,805)	\$ (191,598)
Service fees paid to other banks	(152,891)	(172,777)
Payment of other expenses	(11,511)	(15,308)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(305,207)</u>	<u>(379,683)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Payment on Due to the Bank of North Dakota	(3,591,860)	(3,691,286)
NET CASH USED FOR NON-CAPITAL FUNDING ACTIVITIES	<u>(3,591,860)</u>	<u>(3,691,286)</u>
INVESTING ACTIVITIES		
Investment income received	154	183
Loan interest received	316,134	352,592
Proceeds from principal collections on loans	3,496,061	3,793,582
NET CASH FROM INVESTING ACTIVITIES	<u>3,812,349</u>	<u>4,146,357</u>
NET CHANGE IN CASH	(84,718)	75,388
CASH, BEGINNING OF YEAR	<u>681,524</u>	<u>606,136</u>
CASH, END OF YEAR	<u>\$ 596,806</u>	<u>\$ 681,524</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income/(loss)	\$ 204,848	\$ (236,544)
Adjustments to reconcile operating income/(loss) to net cash used for operating activities		
Adjustment for provision for credit loss	(215,211)	221,909
Decrease in service fee payable to outside lender	(340)	(883)
Increase/(decrease) in service fee payable to BND	18,910	(29,345)
Reclassification of items to other activities		
Interest income on loans	(313,414)	(334,820)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (305,207)</u>	<u>\$ (379,683)</u>

**REBUILDERS LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09-46 of the North Dakota Century Code (NDCC) established the Rebuilders Loan Program (the Program). The purpose of this Program is to help owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward counties. Residents with flood-damaged homes that had been granted a tax assessment reduction in 2011 were eligible to apply for a loan of up to \$30,000 at a 1% interest rate for 20 years. Payments were not required for 24 months; however, interest accrued during this time. Applications were not accepted after September 30, 2012.

The North Dakota Legislature amended the Rebuilders Loan Program in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There was no deferral of principal and interest payments for a loan for nonowner-occupied property. A supplemental loan up to \$20,000 may have been made to a homeowner who had received an initial loan under certain conditions. Applications were not accepted after September 30, 2013. Supplemental loan applications were not accepted after December 31, 2013.

The North Dakota Legislature appropriated \$50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The first \$30,000,000 for this program was transferred from Bank of North Dakota's undivided profits. The remaining \$20,000,000 was transferred by the State of North Dakota's General Fund.

After June 30, 2013, repayments to the Program shall be transferred to replenish \$30,000,000 of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the \$30,000,000 used to replenish the Bank's undivided profits.

The Bank administers the loan program and transfers the money appropriated for this Program from its undivided profits. The Bank deducts a service fee for administering the Program for the Bank and originating financial institutions.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the Program should include all component units over which the Program exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Program.

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

*Accounting Standards and Adoptions of Accounting Policies*

The Program follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

**REBUILDERS LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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*Fund Accounting*

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

*Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted 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 balance sheet. 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 presents 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 in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses.

*Significant Group Concentrations of Credit Risk*

All of the Program's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the Program.

*Cash and Cash Equivalents*

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

*Loans*

Loans are stated at their outstanding unpaid principal balance less an allowance for credit losses. Interest income on loans is accrued at a specific rate of 1% on the unpaid principal balance.

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

**REBUILDERS LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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*Allowance for Credit Losses*

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Program 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. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

*Loan Origination Fees*

The Program pays a loan origination fee of \$250 or \$500 per loan. Loan origination fees are expensed as incurred.

*Credit Related Financial Instruments*

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

*Operating and Non-operating Revenues*

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

**NOTE 2 - DEPOSITS**

The carrying value and bank balance of the Program's cash deposits at June 30, 2018 and 2017 was \$596,806 and \$681,524, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

*Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

**REBUILDERS LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 - LOANS**

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

	<u>2018</u>	<u>2017</u>
Loans, current portion	\$ 1,894,096	\$ 1,904,969
Loans, noncurrent portion	<u>27,874,649</u>	<u>31,508,626</u>
Total loans	<u>29,768,745</u>	33,413,595
Allowance for credit losses	<u>(2,977,000)</u>	<u>(3,341,000)</u>
Total loans, net	<u>\$ 26,791,745</u>	<u>\$ 30,072,595</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2016	\$ 37,876,086
Loan advances	-
Principal collections	(3,791,482)
Charge-offs	<u>(671,009)</u>
Balance, June 30, 2017	33,413,595
Loan advances	-
Principal collections	(3,415,677)
Charge-offs	<u>(229,173)</u>
Balance, June 30, 2018	<u>\$ 29,768,745</u>

Changes in allowance for credit losses are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 3,341,000	\$ 3,788,000
Provision for credit losses	(215,211)	221,909
Charge-offs	(229,173)	(671,009)
Recoveries	<u>80,384</u>	<u>2,100</u>
Balance, end of year	<u>\$ 2,977,000</u>	<u>\$ 3,341,000</u>

There were no impaired loans as of June 30, 2018 and 2017. There were four loans on nonaccrual status as of June 30, 2018 and two loans on nonaccrual status as of June 30, 2017. There were 26 loans 90 days or more past due as of June 30, 2018 and 38 loans 90 days or more past due as of June 30, 2017.



**REBUILDERS LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Program is supervised and administered by the Bank of North Dakota (the Bank). All cash accounts are deposited in the Bank.

The North Dakota Legislature appropriated \$50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The first \$30,000,000 for this program was transferred from Bank of North Dakota's undivided profits, of which \$4,131,646 and \$25,868,354 was received during the years ended June 30, 2013 and 2012, respectively. The remaining \$20,000,000 was transferred by the State of North Dakota's General Fund during the year ended June 30, 2013.

During 2013, the North Dakota Legislature revised the program to require that after June 30, 2013, loan repayments received by the Program shall be transferred back to the Bank to replenish \$30,000,000 of the Bank's undivided profits. As such, the Program owed the Bank \$12,232,342 and \$15,824,202 as of June 30, 2018 and 2017, respectively. In addition, the legislation required that after the Bank's undivided profits are replenished, any repayments received by the Program shall be transferred to the State Treasurer for deposit in the State General Fund after payment of program expenses. As such, the Program also owed the General Fund \$14,952,271 and \$14,815,785 as of June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, the increase in the liability to the General Fund was reflected as reinstatement of debt expense in the amount of \$136,486. During the year ended June 30, 2017, the decrease in the liability to the General Fund was reflected as cancellation of debt income in the amount of \$221,053.

The Bank charged the Program for operating expenses totaling \$4,546 and \$8,612 for the years ended June 30, 2018 and 2017, respectively, of which the Program owed the Bank nothing as of June 30, 2018 and 2017.

The Bank charged the Program servicing fees totaling \$159,715 and \$162,253 for the years ended June 30, 2018 and 2017, respectively. The Program owed the Bank \$6,139 as of June 30, 2018, and the Bank owed the Program a refund of \$12,771 as of June 30, 2017.

**NOTE 5 - RISK MANAGEMENT**

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

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

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rebuilders Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Program’s basic financial statements, and have issued our report thereon dated October 4, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Program’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 Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Program’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bismarck, North Dakota  
October 4, 2018



**Rebuilders Loan Program  
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and  
Fiscal Review Committee  
Year Ended June 30, 2018**

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

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

*Eide Bailly LLP*

Bismarck, North Dakota  
October 4, 2018



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

We have audited the financial statements of the Rebuilders Loan Program (the Program) as of and for the year ended June 30, 2018, and have issued our report thereon dated October 4, 2018. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated May 23, 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. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

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

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

**Planned Scope and Timing of the Audit**

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

## **Compliance with All Ethics Requirements Regarding Independence**

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

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program 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 is:

Management's estimate of the allowance for credit losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for credit losses and determined that it is reasonable in relation to the basic 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 disclosure affecting the Program's financial statements relates to Note 3 – Loans.

## **Significant Difficulties Encountered during the Audit**

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



### **Uncorrected and Corrected Misstatements**

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

### **Disagreements with Management**

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

### **Representations Requested from Management**

We have requested certain written representations from management that are included in the management representation letter dated October 4, 2018.

### **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 Program, 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 Program's auditors.

### **Modification of the Auditor's Report**

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

As discussed in Note 1, the financial statements of the Program 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 Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2018 and 2017, and the changes in its financial position and 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.

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

*Eide Bailly LLP*

Bismarck, North Dakota  
October 4, 2018