

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
(A COMPONENT UNIT OF THE STATE OF NORTH DAKOTA)

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

# NORTH DAKOTA PUBLIC FINANCE AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of North Dakota Public Finance Authority, an agency of the State of North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the North Dakota Public Finance Authority'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Public Finance Authority, as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended, and the statement of appropriations, in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of North Dakota Public Finance Authority as of December 31, 2018, were audited by other auditors whose report dated March 27, 2019, expressed an unmodified opinion on those statements.

## **Emphasis of Matter**

### *Reporting Entity*

As discussed in Note 1, the financial statements of the North Dakota Public Finance Authority are intended to present the financial position, changes in financial position, cash flows and appropriations of only the portion of the State of North Dakota that is attributable to the North Dakota Public Finance Authority. They do not purport to, and do not, present fairly the financial position of the State of North Dakota, as of December 31, 2019 and 2018, the changes in its financial position, its cash flows or appropriations for the years then ended in accordance 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, schedule of employer's share of net pension liability, and schedule of employer contributions, as listed on page 32, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Public Finance Authority's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining financial statements 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2018 combining financial statements on pages 34 through 41 was subjected to the auditing procedures applied in the 2018 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2018 consolidated 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 March 20, 2020 on our consideration of the North Dakota Public Finance Authority'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 North Dakota Public Finance Authority'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 North Dakota Public Finance Authority's internal control over financial reporting and compliance.



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

March 20, 2020

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

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The discussion and analysis of the financial performance of the North Dakota Public Finance Authority (PFA) that follows is meant to provide additional insight into the PFA's activities for the years ended December 31, 2019, 2018 and 2017. Please read it in conjunction with the PFA's financial statements and footnotes, which are presented within this report.

**FINANCIAL HIGHLIGHTS:**

Municipal securities (loans outstanding) increased 6.0% from \$828,462 in 2018 to \$877,784 in 2019; they increased 8.3% from \$765,011 in 2017 to \$828,462 in 2018. State Revolving Fund (SRF) loans are funded with grant revenues and bond proceeds, which are invested until loans are funded. There were \$97,558 of SRF loans funded in 2019, \$114,293 of SRF loans funded in 2018 and \$105,584 in 2017. The variances are due to the demand fluctuations created by the number of projects outstanding. PFA anticipates loan demand will continue to remain strong as these projects are constructed over the next one to two years. Investments decreased by 36% to \$100,510 in 2019 due to loans being funded, increased by 45% in 2018 to \$157,538 due to bond proceeds, and decreased by 42% in 2017 due to loans being funded.

There were rebate payments of \$3 made to the Internal Revenue Service in 2019 and payments of \$22 and \$8 made in 2018 and 2017, respectively. As of year-end, there is no accrued rebate liability.

On September 26, 2018, Standard and Poor's upgraded both the Capital Financing Program "CFP" and Industrial Development Bond Program "IDBP" from A+ to AA-. The PFA issued CFP Bonds of \$2,515 in 2019, \$1,360 in 2018 and there were no CFP bonds issued in 2017. The State Revolving Fund Loan Program (rated Aaa by Moody's and AAA by S&P) issues bonds to provide the required match to receive capitalization grants from the EPA. The PFA issued SRF bonds of \$128,625 in 2018, no SRF bonds were issued in 2019 or 2017.

State Revolving Fund expenses were \$4,769 for 2019, \$4,473 for 2018 and \$4,427 for 2017. This is largely due to capitalization grants being required to provide principal forgiveness, which is presented as an expense on the statement of revenues, expenses and changes in fund net position.

Total assets decreased \$5,344 to \$1,067,445 in 2019 and increased \$149,146 to \$1,072,789 in 2018. The balance sheet indicates that the PFA continues to have adequate resources to provide for bond repayments. Change in net position of the PFA resulted in an increase of \$23,763 in 2019 and \$21,235 in 2018 providing the PFA with an overall strong financial position. Grant proceeds account for a significant portion of net position. Federal law provides that grants may only be expended for SRF program purposes. Net position is also restricted for debt service of bond issues or for the purchase of municipal securities. As of December 31, 2019, and 2018, the PFA had \$221,875 and \$269,344, respectively, of commitments to extend credit.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2019 AND 2018**  
(In Thousands)

**REQUIRED FINANCIAL STATEMENTS:**

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

**CONDENSED STATEMENT OF NET POSITION**  
**DECEMBER 31,**

	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
				Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
<b>ASSETS</b>							
CURRENT ASSETS - RESTRICTED	\$ 183,301	\$ 189,498	\$ 117,356	\$ (6,197)	-3.27%	\$ 72,142	61.47%
NONCURRENT ASSETS - RESTRICTED	884,144	883,291	806,287	853	0.10%	77,004	9.55%
TOTAL ASSETS	<u>\$ 1,067,445</u>	<u>\$ 1,072,789</u>	<u>\$ 923,643</u>	<u>\$ (5,344)</u>	<u>-0.50%</u>	<u>\$ 149,146</u>	<u>16.15%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 3,199</u>	<u>\$ 3,915</u>	<u>\$ 4,625</u>	<u>\$ (716)</u>	<u>-18.29%</u>	<u>\$ (710)</u>	<u>-15.35%</u>
<b>LIABILITIES</b>							
CURRENT LIABILITIES	\$ 30,239	\$ 31,878	\$ 25,980	\$ (1,639)	-5.14%	\$ 5,898	22.70%
NONCURRENT LIABILITIES	494,953	523,219	401,924	(28,266)	-5.40%	121,295	30.18%
TOTAL LIABILITIES	<u>525,192</u>	<u>555,097</u>	<u>427,904</u>	<u>(29,905)</u>	<u>-5.39%</u>	<u>127,193</u>	<u>29.72%</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 103</u>	<u>\$ 21</u>	<u>\$ 15</u>	<u>\$ 82</u>	<u>390.48%</u>	<u>\$ 6</u>	<u>40.00%</u>
<b>NET POSITION</b>							
UNRESTRICTED	\$ 1,947	\$ 1,919	\$ 1,997	\$ 28	1.46%	\$ (78)	-3.91%
RESTRICTED FOR DEBT SERVICE	114,641	98,810	92,102	15,831	16.02%	6,708	7.28%
RESTRICTED FOR LOAN PURPOSES	428,761	420,857	406,252	7,904	1.88%	14,605	3.60%
TOTAL NET POSITION	<u>\$ 545,349</u>	<u>\$ 521,586</u>	<u>\$ 500,351</u>	<u>\$ 23,763</u>	<u>4.56%</u>	<u>\$ 21,235</u>	<u>4.24%</u>

*Cash and Investments*

Certain PFA cash and investments, which are included in the restricted current and non-current assets, are restricted for the debt service of bond issues or for the purchase of municipal securities. Additional discussion of these investments can be found at Note 2 to the financial statements.

*Municipal Securities*

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as "municipal securities" and included in the restricted current and non-current assets of the condensed Balance Sheet. These investment securities are primarily city and water district obligations and are pledged to the various bond issues. No future losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contain further information regarding municipal securities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

*Bonds Payable*

In order to provide local political subdivisions with funds to finance projects, the PFA has issued bonds to facilitate the purchase of the political subdivision's municipal securities. The bonds payable are included in the restricted current and non-current liabilities of the preceding statement. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

*Rebate Due to IRS*

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. This liability is included in the current and non-current liabilities. Note 7 to the financial statements contains additional information.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31,**

	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
				Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
<b>OPERATING REVENUES</b>							
Investment income	\$ 20,875	\$ 20,190	\$ 19,591	\$ 685	3.39%	\$ 599	3.06%
Grant and set-asides	1,089	1,063	555	26	2.45%	508	91.53%
Administrative fees and other	3,606	3,265	2,957	341	10.44%	308	10.42%
	<u>25,570</u>	<u>24,518</u>	<u>23,103</u>	<u>1,052</u>	<u>4.29%</u>	<u>1,415</u>	<u>6.12%</u>
<b>NONOPERATING REVENUE</b>							
Grant and set-asides	17,349	16,622	13,650	727	4.37%	2,972	21.77%
Investment income	6,503	5,734	4,714	769	13.41%	1,020	21.64%
	<u>23,852</u>	<u>22,356</u>	<u>18,364</u>	<u>1,496</u>	<u>6.69%</u>	<u>3,992</u>	<u>21.74%</u>
<b>TOTAL REVENUE</b>	<u>49,422</u>	<u>46,874</u>	<u>41,467</u>	<u>2,548</u>	<u>5.44%</u>	<u>5,407</u>	<u>13.04%</u>
<b>OPERATING EXPENSES</b>							
Interest expense	20,589	20,121	17,316	468	2.33%	2,805	16.20%
State Revolving Fund expenses	4,769	4,473	4,427	296	6.62%	46	1.04%
Rebate (Benefit) due to IRS	1	12	(1)	(11)	-91.67%	13	-1300.00%
Amortization of bond issue costs	-	722	-	(722)	100.00%	722	100.00%
Other	300	311	302	(11)	-3.54%	9	2.98%
	<u>25,659</u>	<u>25,639</u>	<u>22,044</u>	<u>20</u>	<u>0.08%</u>	<u>3,595</u>	<u>16.31%</u>
<b>EXTRAORDINARY ITEM</b>	-	-	-	-	100.00%	-	100.00%
<b>CHANGE IN NET POSITION</b>	<u>23,763</u>	<u>21,235</u>	<u>19,423</u>	<u>2,528</u>	<u>11.90%</u>	<u>1,812</u>	<u>9.33%</u>
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>521,586</u>	<u>500,351</u>	<u>480,928</u>	<u>21,235</u>	<u>4.24%</u>	<u>19,423</u>	<u>4.04%</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 545,349</u>	<u>\$ 521,586</u>	<u>\$ 500,351</u>	<u>\$ 23,763</u>	<u>4.56%</u>	<u>\$ 21,235</u>	<u>4.24%</u>

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to PFA operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

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*Grant and set-asides*

Under an agreement with the North Dakota Department of Environmental Quality, the PFA assists in administering the State Revolving Loan Fund. The grant proceeds are classified as non-operating revenue in the Statement of Revenues, Expenditures and Changes in Net Position.

The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects. The federal Environmental Protection Agency (EPA) provides capitalization grants. Capitalization grants require that the state provide 20% match which is funded through bonds issued by the PFA.

*Economic Factors and Budgetary Information*

Note 1 to the financial statements discusses the PFA's economic dependence on North Dakota political subdivision municipal securities obligations.

As discussed in financial statement Note 1, the PFA, an agency of the Industrial Commission, operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget as a part of the Industrial Commission's budget, which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

*Contacting the North Dakota Public Finance Authority's financial management:*

The information in this report is intended to provide the reader with an overview of the PFA's operations along with the PFA's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Public Finance Authority, PO Box 5509, Bismarck, ND 58506-5509.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2019 AND 2018**  
(In Thousands)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Restricted		
Cash and cash equivalents	\$ 83,581	\$ 80,856
Interest receivable	5,570	5,933
Investments	51,121	64,739
Municipal securities	43,029	37,970
Total restricted current assets	<u>183,301</u>	<u>189,498</u>
Total current assets	<u>183,301</u>	<u>189,498</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>		
Investments	49,389	92,799
Municipal securities	834,755	790,492
Total restricted noncurrent assets	<u>884,144</u>	<u>883,291</u>
Total assets	<u>\$ 1,067,445</u>	<u>\$ 1,072,789</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on bond refunding	\$ 3,116	\$ 3,802
Derived from pension	83	113
Total deferred outflows of resources	<u>\$ 3,199</u>	<u>\$ 3,915</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 37	\$ 113
Rebate due to IRS	-	3
Bonds payable	25,665	26,960
Interest payable	4,537	4,802
Total current liabilities	<u>30,239</u>	<u>31,878</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	494,762	522,940
Net pension liability	191	279
Total noncurrent liabilities	<u>494,953</u>	<u>523,219</u>
Total liabilities	<u>\$ 525,192</u>	<u>\$ 555,097</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Derived from pension	\$ 103	\$ 21
Total deferred inflows of resources	<u>\$ 103</u>	<u>\$ 21</u>
<b>NET POSITION</b>		
Unrestricted	\$ 1,947	\$ 1,919
Restricted for debt service	114,641	98,810
Restricted for loan purposes	428,761	420,857
Total net position	<u>\$ 545,349</u>	<u>\$ 521,586</u>

See Notes to Financial Statements

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(In Thousands)

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Investment income	\$ 20,875	\$ 20,190
Grant and set-asides	1,089	1,063
Administrative fees and other	3,606	3,265
	<u>25,570</u>	<u>24,518</u>
<b>OPERATING EXPENSES</b>		
Interest expense	20,589	20,121
State Revolving Fund loan forgiveness	2,506	2,162
State Revolving Fund administration	2,035	2,099
State Revolving Fund set-asides	228	212
Rebate (Benefit) due to IRS	1	12
Salaries and benefits	236	266
Bond issue costs	-	722
Operating	63	43
Paying agent fees	1	2
	<u>25,659</u>	<u>25,639</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(89)</u>	<u>(1,121)</u>
<b>NONOPERATING REVENUE</b>		
Grant and set-asides	17,349	16,622
Investment income	6,503	5,734
	<u>23,852</u>	<u>22,356</u>
<b>CHANGE IN NET POSITION</b>	<b>23,763</b>	21,235
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>521,586</u>	<u>500,351</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 545,349</u>	<u>\$ 521,586</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(In Thousands)

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Receipts of administrative fees from customers	\$ 3,606	\$ 3,265
Grant and set-asides	1,089	1,063
Payments to service providers	(2,403)	(2,959)
Payments to employees	(212)	(266)
Payment of rebate to IRS	(4)	(23)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>2,076</u>	<u>1,080</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Grant and set-asides	17,349	16,622
Interest paid on bonds payable	(23,516)	(20,197)
Proceeds from bond premiums	-	22,114
Proceeds from issuance of bonds payable	2,515	129,985
Principal payments on bonds payable	(28,640)	(24,220)
<b>NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>	<u>(32,292)</u>	<u>124,304</u>
<b>INVESTING ACTIVITIES</b>		
Interest received on investments and municipal securities	27,741	25,372
Proceeds from maturities and sales of investments	111,735	100,170
Purchases of investments	(54,707)	(149,010)
Proceeds from maturities of municipal securities	48,496	50,875
Purchases of municipal securities	(100,324)	(116,488)
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	<u>32,941</u>	<u>(89,081)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>2,725</b>	<b>36,303</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>80,856</u>	<u>44,553</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 83,581</u>	<u>\$ 80,856</u>

**STATEMENTS OF CASH FLOWS – CONTINUED**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(In Thousands)

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (89)	\$ (1,121)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Bond financing costs	-	722
Net amortization of premium on bonds payable	2,662	1,492
Reclassification of investment income and expense to other activities	(442)	(121)
Changes in assets and liabilities:		
Pension Accruals	24	31
Accounts payable	(76)	87
Rebate due IRS	(3)	(10)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 2,076</u>	<u>\$ 1,080</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENT OF APPROPRIATIONS**  
**TWO YEARS ENDED JUNE 30, 2019 AND SIX MONTHS ENDED DECEMBER 31, 2019**  
(In Thousands)

Note: Only appropriations of specific amounts are included in this statement. A reconciliation to the operating expenses on the December 31, 2019 and 2018 statement of revenues and expenses follows:

	2017-2019	7-1-17	1-1-18	Unexpended	1-1-19	Unexpended	2019-2021	7-1-19	Unexpended
	Appropriations	Expenditures	Expenditures	Appropriations	Expenditures	Appropriations	Appropriations	Expenditures	Appropriations
		12-31-17	12-31-18	at 12-31-18	6-30-2019	at 6-30-19	2019-2021	12-31-19	12-31-19
							Appropriations	Expenditures	12-31-19
Salaries and wages	\$ 588	\$ 104	\$ 234	\$ 250	\$ 117	\$ 133	\$ 618	\$ 96	\$ 522
Operating expenses	204	23	43	\$ 138	35	\$ 103	186	28	158
Total administrative expenses	792	127	277	388	152	236	804	124	\$ 680
Total expenses	\$ 792	\$ 127	\$ 277	\$ 388	\$ 152	\$ 236	\$ 804	\$ 124	\$ 680

The Public Finance Authority also incurs noninterest expenditures which are not part of the biennial appropriation process. Examples of these expenditures include expenses associated with the issuance and repayment of bonds issued to fund qualified projects. These expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority as provided by Article 10, Section 12 of the North Dakota Constitution.

	2019	2018
Total appropriation expenditures for year ended December 31	\$ 276	\$ 277
GASB 68 Adjustment	23	32
Interest expense	20,589	20,121
State Revolving Fund administrative fees	4,769	4,473
Rebate due to IRS	1	12
Bond issue costs	-	722
Paying agent fees	1	2
Total operating expenses	\$ 25,659	\$ 25,639

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

The North Dakota Public Finance Authority (PFA) was established July 1, 1975, by the North Dakota Legislature, as provided in Chapter 6-09.4 of the North Dakota Century Code, as a separate agency of the State of North Dakota. The purpose of the PFA is to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of municipal securities of the political subdivisions. The PFA has been granted all powers required in order to accomplish this purpose and is under the control and management of the North Dakota Industrial Commission.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, the PFA should include all component units over which the PFA 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 PFA. Reporting units are further defined as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

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

Based on the criteria of GASB Statement No. 61, no organizations were determined to be part of the reporting entity. The PFA is included as a discretely presented component unit within the State of North Dakota's reporting entity.

*Budgetary Process*

The PFA operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the PFA's financial plan for the next two years. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

The Statement of Appropriations has been prepared using the accrual basis of accounting and includes only those expenses for which an appropriation has been established.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### *Basis of Accounting and Measurement Focus*

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

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The PFA recovers its costs through administrative charges to municipalities and earnings on administrative funds. The Program revenues include 1) Income from receivables and 2) Administrative fees. The Non Program revenues include 1) Investment income and 2) Income from grants and set-asides.

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

The accompanying financial statements of the North Dakota Public Finance Authority follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 62, the PFA follows all applicable GASB Pronouncements as well as following accounting principles generally accepted in the United States of America.

When both restricted and unrestricted resources are available for use, it is the PFA's policy to use restricted resources first, and then unrestricted resources as they are needed.

### *Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### *Concentration of Credit Risk*

Municipal securities primarily consist of obligations of cities, school districts and water organizations. The PFA performs credit evaluations and, in some instances, municipal securities are collateralized by property and leases. Generally, the PFA maintains a security interest until related receivables are collected. Municipal securities are due under terms corresponding with applicable bonds. All customers are located in the state of North Dakota.

### *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.

### *Cash and Cash Equivalents*

The PFA considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted cash and cash equivalents.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### *Investments*

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in net position. A portion of the PFA's investments consists of nonparticipating contracts. These instruments are reported at cost. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted investments.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their moneys invested in various debt securities such as U.S. Treasury securities, certificates of deposit, investment contracts, agency notes and commercial paper.

### *Equipment and Furnishings*

Equipment and furnishings are stated at cost, net of accumulated depreciation. Equipment and furnishings with a cost of \$5,000 or more per unit are capitalized and reported in the accompanying financial statements. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. There is no equipment or furnishings recorded for the years ended December 31, 2019 and 2018.

Expenditures for major additions and improvements that extend the useful lives of equipment and furnishings are capitalized. Routine expenditures for repairs and maintenance are charged to expenses when incurred.

### *Accumulated Unpaid Vacation and Sick Pay*

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Agency. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned based on tenure at the rate of one working day per month of employment. There are no limitations on the amount of sick leave that an employee can accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service under chapter 54-52 of the North Dakota Century Code.

Vacation and sick leave are immaterial as of December 31, 2019 and 2018 and are not accrued.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### *Restricted Net Position*

The PFA administers the financial component of the SRF federal grant programs for the North Dakota Department of Environmental Quality. Grant proceeds account for a significant portion of net position. Federal law provides that the grants may only be expended for SRF program purposes. Net position is also restricted for debt service of bond issues or for the purchase of municipal securities. The PFA follows the CFP and SRF bond indentures for the repayment of restricted net position.

### *Operating and Non-operating Revenues*

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

### *Administrative Fee Revenue*

All loans originated by the PFA are charged an administration fee. These fees are used to cover the costs incurred in the administration of the loan programs. Income is recorded when the fees are received.

### *Grant and Set-Asides Revenue*

The SRF Program grants, received from the United States Environmental Protection Agency, are to be used to make below-market interest rate loans to political subdivisions for the purpose of financing authorized projects. In addition, the Drinking Water SRF Program is allowed to “set-aside” a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

### *State Revolving Fund Administration Expense*

State Revolving Fund administration expenses are incurred by the PFA and North Dakota Department of Environmental Quality in administration of the State Revolving Loan Programs.

### *State Revolving Fund Set-Asides Expenses*

The Drinking Water SRF Program is allowed to “set-aside” a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

### *Rebate Due to IRS*

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as rebate, once every five years, to the U.S. Treasury. Rebate is calculated every five years and the liability is accordingly adjusted.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### DEPOSITS

The North Dakota Public Finance Authority is required to maintain its deposits at the Bank of North Dakota. As of December 31, the PFA had the following deposits (amounts in the thousands):

	<b>Bank Balance 2019</b>	<b>Bank Balance 2018</b>
Cash and cash equivalents	<u>\$ 83,581</u>	<u>\$ 80,856</u>

#### *Custodial and Concentration Credit Risk*

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

#### INVESTMENTS

NDCC 6-09.4-7 authorizes the PFA to invest any funds in the same manner as permitted for investment of funds belonging to the state or the Bank of North Dakota. The PFA does have a formal investment policy. Also, the General Bond Resolution and Master Trust Indenture specify the permitted investments. The PFA follows those stipulations when investing funds.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts may have their moneys invested in various debt securities such as U.S. Treasury securities, commercial paper, guaranteed investment contracts, agency notes and certificates of deposit. There is no limit on the amount the PFA may invest in any one issuer.

#### *Investment Valuation*

The PFA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The PFA does not have any investments that are measured using Level 3 inputs.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

The following tables summarize investment by investment type and input level (amounts are in thousands):

Investments	12/31/2019	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Debt Securities</b>				
US Treasury notes	\$ 30,239	\$ 30,239	\$ -	\$ -
Certificates of deposit	11,916	-	11,916	-
Corporate Note	17,868	-	17,868	-
Federal agency notes	8,445	8,445	-	-
Commercial paper	4,799	-	4,799	-
Total debt securities	<u>73,267</u>	<u>38,684</u>	<u>34,583</u>	<u>-</u>
Total Investments at fair value	<u>\$ 73,267</u>	<u>\$ 38,684</u>	<u>\$ 34,583</u>	<u>\$ -</u>

### Investments measured at contract value:

#### Guaranteed Investment Contracts:

Bank of ND	<u>25,366</u>
Total Guaranteed Investment Contracts	<u>25,366</u>

### Investments measured at cost:

Certificate of deposit - Bank of ND	<u>1,877</u>
Total investments	<u>\$ 100,510</u>

Investments	12/31/2018	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Debt Securities</b>				
US Treasury notes	\$ 35,662	\$ 35,662	\$ -	\$ -
Certificates of deposit	11,092	-	11,092	-
Corporate note	24,829	-	24,829	-
Federal agency notes	10,604	10,604	-	-
Commercial paper	16,294	-	16,294	-
Total equity securities	<u>98,481</u>	<u>46,266</u>	<u>52,215</u>	<u>-</u>
Total Investments at fair value	<u>\$ 98,481</u>	<u>\$ 46,266</u>	<u>\$ 52,215</u>	<u>\$ -</u>

### Investments measured at contract value:

#### Guaranteed Investment Contracts:

Bank of ND	<u>25,224</u>
Natixis Funding Corp.	<u>31,029</u>
Total Guaranteed Investment Contracts	<u>56,253</u>

### Investments measured at cost:

Certificate of deposit - Bank of ND	<u>2,804</u>
Total investments	<u>\$ 157,538</u>

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair values of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The PFA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes.

As of December 31, 2019, the following table summarizes investment by investment type and maturity (amounts are in thousands):

Investment Type	Total Fair Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries	\$ 30,239	\$ 15,614	\$ 14,625	\$ -	\$ -
Certificates of Deposit	11,916	11,916	-	-	-
Corporate Note	17,868	13,321	4,547	-	-
Agency Notes	8,445	4,871	3,574	-	-
Commercial Paper	4,799	4,799	-	-	-
	\$ 73,267	\$ 50,521	\$22,746	\$ -	\$ -

#### Investments not subject to categorization:

##### Guaranteed Investment Contracts:

Bank of ND	25,366
Total Guaranteed Investment Contracts	25,366
Certificates of deposit - Bank of ND	1,877
Total investments	\$100,510

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

As of December 31, 2018, the following table summarizes investment by investment type and maturity (amounts are in thousands):

Investment Type	Total Fair Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries	\$ 35,662	\$ 15,107	\$20,555	\$ -	\$ -
Certificates of Deposit	11,092	11,092	-	-	-
Corporate Note	24,829	16,284	8,545	-	-
Agency Notes	10,604	3,759	6,845	-	-
Commercial Paper	16,294	16,294	-	-	-
	\$ 98,481	\$ 62,536	\$35,945	\$ -	\$ -
<u>Investments not subject to categorization:</u>					
Guaranteed Investment Contracts:					
Natixis Funding Corp.	31,029				
Bank of ND	25,224				
Total Guaranteed Investment Contracts	56,253				
Certificates of deposit - Bank of ND	2,804				
Total investments	\$157,538				

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The PFA's North Dakota State Revolving Fund Program Master Trust Indenture restricts investments in Guaranteed Investment Contracts (GICs) and Bank Investment Contracts (BICs) issued, at the time the contract is entered into, a long-term debt rating by Moody's, at least equal to the better of (i) "A" or (ii) the then current rating assigned by Moody's to the Bonds without regard to credit enhancement for long-term obligations.

As of December 31, 2019, the following table summarizes investment by investment type and credit rating (amounts are in thousands):

Investment Type	Credit Rating*				
	Total Fair Value	AAA	AA	A	BBB
Certificates of Deposit	\$ 11,916	\$ -	\$ -	\$ 11,916	\$ -
Corporate Note	17,868	-	631	14,148	3,089
Agency Notes	8,445	-	8,445	-	-
Commercial Paper	4,799	-	-	4,799	-
		<u>\$ -</u>	<u>\$ 9,076</u>	<u>\$ 30,863</u>	<u>\$ 3,089</u>
US Government	<u>30,239</u>				
Total Debt Securities	<u>\$ 73,267</u>				

As of December 31, 2018, the following table summarizes investment by investment type and credit rating (amounts are in thousands):

Investment Type	Credit Rating*				
	Total Fair Value	AAA	AA	A	BBB
Certificates of Deposit	\$ 11,092	\$ -	\$ -	\$ 11,092	\$ -
Corporate Note	24,829	-	3,054	18,425	3,350
Agency Notes	10,604	-	10,604	-	-
Commercial Paper	16,294	-	-	16,294	-
		<u>\$ -</u>	<u>\$ 13,658</u>	<u>\$ 45,811</u>	<u>\$ 3,350</u>
US Government	<u>35,662</u>				
Total Debt Securities	<u>\$ 98,481</u>				

\* Ratings are determined by a nationally recognized statistical rating organization.

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**NOTE 3 - MUNICIPAL SECURITIES**

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as “municipal securities.” These investment securities are primarily obligations of cities and water organizations, and are pledged to the various bond issues. Due to the maturity of these securities, a market value is not readily available. The PFA intends to hold these securities to maturity. No future losses for market value decline are anticipated and an allowance has not been provided. The PFA had the following municipal securities as of December 31:

	<u>2019</u>	<u>2018</u>
Capital Financing Program	\$ 149,782	\$ 155,202
State Revolving Fund Program	<u>728,002</u>	<u>673,260</u>
	877,784	828,462
Less current portion	<u>43,029</u>	<u>37,970</u>
	<u><u>\$ 834,755</u></u>	<u><u>\$ 790,492</u></u>

**NOTE 4 - BONDS PAYABLE**

*Changes in Bonds Payable*

Activity for long-term liabilities for the year ended December 31, 2019 was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Net Accretion of Premiums and Discounts</u>	<u>Balance 2019</u>	<u>Amounts Due Within One Year</u>
LONG-TERM LIABILITIES						
Bonds payable	<u>\$549,900</u>	<u>\$ 2,515</u>	<u>\$ 28,640</u>	<u>\$ (3,348)</u>	<u>\$520,427</u>	<u>\$ 25,665</u>

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

	<u>Balance 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Net Accretion of Premiums and Discounts</u>	<u>Balance 2018</u>	<u>Amounts Due Within One Year</u>
LONG-TERM LIABILITIES						
Bonds payable	<u>\$424,214</u>	<u>\$ 129,985</u>	<u>\$ 24,220</u>	<u>\$ 19,921</u>	<u>\$549,900</u>	<u>\$ 26,960</u>

*Bonds Payable*

The bonds of the PFA have been issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### *Maturities of Bonds Payable*

Maturities of principal and interest on all bonds are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 25,665	\$ 22,335	\$ 48,000
2021	26,770	21,193	47,963
2022	26,060	19,960	46,020
2023	27,320	18,716	46,036
2024	26,660	17,429	44,089
2025-2029	139,350	67,629	206,979
2030-2034	130,480	34,067	164,547
2035-2039	57,035	9,415	66,450
2040-2044	10,025	1,818	11,843
2045	2,216	55	2,271
Premiums	48,846	(48,846)	-
	<u>\$ 520,427</u>	<u>\$ 163,771</u>	<u>\$ 684,198</u>

The following summarizes the PFA's bonds outstanding at December 31, 2019 and December 31, 2018:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2019</u>	<u>2018</u>
Series 1998-CFP Serial Bonds 6/1/99-6/1/23	4.20-5.25	\$ 9,695	\$ -	\$ 35
Series 1998-SRF Serial Bonds 10/1/99-10/1/19 (net of premium)	4.00-5.50	35,965	-	2,623
Series 1999-CFP Serial Bonds 6/1/00-6/1/23	4.80-8.25	4,530	-	100
Series 2005-SRF Serial Bonds 10/1/06-10/1/23 (net of premium)	3.00 - 5.00	36,210	-	881
Series 2006-CFP Serial Bonds 6/1/07-6/1/31	4.25 - 5.00	1,385	-	160
Series 2006-IDBP Serial Bonds 6/1/07-6/1/31	4.00 - 5.00	1,360	<b>855</b>	905
Series 2009-CFP Serial Bonds 6/1/10-6/1/34	2.00 - 4.88	2,125	<b>540</b>	1,475
Series 2009-IDBP Serial Bonds 6/1/10-6/1/34	3.00 - 6.00	1,500	<b>1,100</b>	1,150

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Description and Due Date	Interest Rate	Original Value	2019	2018
Series 2011-CFP Serial Bonds 6/1/12-6/1/41	2.00 - 5.50	\$ 3,730	\$ <b>2,620</b>	\$ 2,775
Series 2011-SRF Serial Bonds 10/1/12-10/1/31 (net of premium)	3.00 - 5.00	101,210	<b>71,731</b>	77,963
Series 2012-SRF Serial Bonds 10/1/12-10/1/25 (net of premium)	0.24 - 5.00	37,605	<b>17,700</b>	20,551
Series 2012-CFP Serial Bonds 6/1/13-6/1/41	2.00 - 3.75	9,635	<b>7,265</b>	7,625
Series 2013-CFP Serial Bonds 6/1/14-6/1/33	3.00 - 4.00	51,375	<b>39,830</b>	41,940
Series 2014-CFP Serial Bonds 6/1/15-6/1/34	2.00 - 5.00	41,840	<b>33,425</b>	35,205
Series 2015-CFP Serial Bonds 6/1/15-6/1/45	2.00 - 5.00	65,845	<b>58,860</b>	60,720
Series 2015-SRF Serial Bonds 10/1/16-10/1/35 (net of premium)	3.00 - 5.00	119,195	<b>119,043</b>	124,171
Series 2016-SRF Serial Bonds 10/1/19-10/1/28 (net of premium)	4.00 - 5.00	16,405	<b>17,905</b>	19,522
Series 2018-CFP Serial Bonds 6/1/19-6/1/28	5.00	1,360	<b>1,295</b>	1,360
Series 2018-SRF Serial Bonds 10/1/19-10/1/38 (net of premium)	5.00	128,625	<b>145,743</b>	150,739
Series 2019-CFP Serial Bonds 11/1/20-11/1/24	1.75 - 4.00	2,515	<b>2,515</b>	-
			<b>\$ 520,427</b>	<b>\$ 549,900</b>

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### NOTE 5 - PENSION PLAN

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 provision 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 annual 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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 of disabled is set by the NDPERS in the North Dakota Administrative Code.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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### *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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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

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

At December 31, 2019 and 2018, the Employer reported a liability of \$191 and \$279, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the Employer's proportion was 0.016309 percent, which was a decrease of 0.000241 from its proportion measured as of June 30, 2018.

For the years ended December 31, 2019 and 2018, the Employer recognized pension expense was \$33 and \$44, respectively.

At December 31, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 35
Changes of assumptions	71	61
Net difference between projected and actual earnings on pension plan investments	3	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1	7
Employer contributions subsequent to the measurement date	<u>8</u>	<u>-</u>
Total	<u>\$83</u>	<u>\$103</u>

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

\$8 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1	\$ 10
Changes of assumptions	101	4
Net difference between projected and actual earnings on pension plan investments	-	1
Changes in proportion and differences between employer contributions and proportionate share of contributions	1	6
Employer contributions subsequent to the measurement date	<u>10</u>	<u>-</u>
Total	<u>\$113</u>	<u>\$21</u>

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,**

2020	\$4
2021	-
2022	(7)
2023	(18)
2024	(7)

*Actuarial Assumptions*

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary Increases	Service at		Non-State
	<u>Beginning of Year</u>	<u>State Employee</u>	<u>Employee</u>
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	<u>Age</u>		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%
	*Age-based salary increase rates apply for employees with three or more years of service.		
Investment rate of return	7.50%, net of investment expenses		
Cost-of-living adjustments	None		

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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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 Retiree Mortality Table with ages set back one year for males (not set back 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

### *Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.*

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Employer's proportionate share of the net pension liability	\$274	\$191	\$121

*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 report 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; P.O. Box 1657; Bismarck, ND 58502-1657.

**NOTE 6 - STATE REVOLVING LOAN FUND**

Under an agreement with the North Dakota Department of Environmental Quality, the PFA assists in administering the State Revolving Loan Fund. The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects.

The federal Environmental Protection Agency (EPA) provides capitalization grants. Capitalization grants require that the state provide 20% match which is funded through bonds issued by the PFA.

As of December 31, the following Loan Fund transactions had occurred:

	<b>2019</b>	<b>2018</b>
Municipal securities purchased	\$ 97,558	\$ 114,293
EPA grant funds received	18,366	17,608

**NOTE 7 - REBATE DUE TO IRS**

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. A detail of the cumulative rebate at December 31, is as follows:

	<b>2019</b>	<b>2018</b>
1998A SRF bonds	\$ -	\$ 3
Current rebate due to IRS	\$ -	\$ 3

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### NOTE 8 - RELATED PARTY TRANSACTIONS

All cash accounts of the PFA are deposited in the Bank of North Dakota. All investments are under the safekeeping of the Bank of North Dakota. The Bank of North Dakota acts as paying agent for all bonds and as trustee for the 2011, 2012, 2015, 2016 and 2018 State Revolving Fund Bonds.

The PFA had the following transactions with related parties summarized as follows:

	<u>2019</u>	<u>2018</u>
Bank of North Dakota		
Cash and cash equivalents - restricted	\$ 13,478	\$ 9,701
Interest receivable	3	3
Certificates of deposit recorded as investments (no current portion)	1,877	2,804
Municipal securities	30	61
Bank investment contract (1)	25,366	25,225
Expenses		
Registrar, paying agent and trustee fees	126	136
Treasury fees	6	5
Letter of credit fees	13	8
Other Administrative Fees	1	-
Industrial Commission		
Administrative Fees	20	20
Information Technology Department		
Telecommunications and data	5	5

- (1). The bank investment contract in conjunction with the SRF 2001A bond issue was awarded to the Bank of North Dakota. The investment contract is at a fixed rate and matures on October 1, 2021.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

Amounts passed through from the State Department of Environmental Quality from federal grantor agencies are subject to audit and adjustment by the federal grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor will be recognized in the year determined.

The PFA 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. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The PFA's exposure to credit loss is represented by the contractual amount of these commitments. The PFA follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Commitments to extend credit totaled \$221,875 and \$269,344 as of December 31, 2019 and 2018, respectively.

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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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The PFA purchased letters of credit from the Bank of North Dakota in order to fund the reserves for the Capital Financing Program Bonds. As December 31, 2019, \$27,516 of credit was available through these letters of credit and no funds have been advanced.

### NOTE 10 - RISK MANAGEMENT

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

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

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

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

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
REQUIRED SUPPLEMENTARY INFORMATION

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

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

	2019	2018	2017	2016	2015	2014
1. Employer's proportion of the net pension liability (asset)	0.016309%	0.016550%	0.016523%	0.016349%	0.017889%	0.017653%
2. Employer's proportionate share of the net pension liability (asset)	\$191	\$279	\$266	\$159	\$122	\$112
3. Employer's covered payroll	\$170	\$170	\$169	\$165	\$159	\$149
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	112.68%	164.27%	157.40%	96.36%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	71.66%	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 July 1 of the years presented.

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

	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$12	\$13	\$12	\$12	\$12	\$19
Contributions in relation to the statutorily required contribution	(\$12)	(\$11)	(\$12)	(\$12)	(\$12)	(\$10)
Contribution deficiency (excess)	\$0	\$1	\$0	\$0	\$0	(\$8)
Agency's covered payroll	\$170	\$170	\$169	\$165	\$159	\$153
Contributions as a percentage of covered payroll	7.12%	6.73%	7.12%	7.27%	7.60%	6.80%

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

Data reported is measured as of December 31 of the years presented.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

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**Notes to Required Supplementary Information**  
**For the Year Ended December 31, 2019**

*Changes of benefit terms.*

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

*Changes of assumptions*

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
SUPPLEMENTARY INFORMATION

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Restricted				
Restricted cash and cash equivalents	\$ 47,704	\$ 35,145	\$ 732	\$ 83,581
Interest receivable	2,693	2,334	543	5,570
Investments	41,704	8,817	600	51,121
Municipal securities	21,283	14,551	7,195	43,029
Total restricted current assets	<u>113,384</u>	<u>60,847</u>	<u>9,070</u>	<u>183,301</u>
Total current assets	<u>113,384</u>	<u>60,847</u>	<u>9,070</u>	<u>183,301</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>				
Investments	25,859	23,530	-	49,389
Municipal securities	352,950	339,218	142,587	834,755
Total restricted noncurrent assets	<u>378,809</u>	<u>362,748</u>	<u>142,587</u>	<u>884,144</u>
Total assets	<u>\$ 492,193</u>	<u>\$ 423,595</u>	<u>\$ 151,657</u>	<u>\$ 1,067,445</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on bond refunding	\$ 1,066	\$ 2,050	\$ -	\$ 3,116
Derived from pension	-	-	83	83
Total deferred outflows of resources	<u>\$ 1,066</u>	<u>\$ 2,050</u>	<u>\$ 83</u>	<u>\$ 3,199</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 8	\$ 4	\$ 25	\$ 37
Bonds payable	9,510	8,960	7,195	25,665
Interest payable	2,212	1,777	548	4,537
Total current liabilities	<u>11,730</u>	<u>10,741</u>	<u>7,768</u>	<u>30,239</u>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable	195,726	157,926	141,110	494,762
Net pension liability	-	-	191	191
Total noncurrent liabilities	<u>195,726</u>	<u>157,926</u>	<u>141,301</u>	<u>494,953</u>
Total liabilities	<u>\$ 207,456</u>	<u>\$ 168,667</u>	<u>\$ 149,069</u>	<u>\$ 525,192</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Derived from pension	\$ -	\$ -	\$ 103	\$ 103
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103</u>	<u>\$ 103</u>
<b>NET POSITION</b>				
Unrestricted	\$ -	\$ -	\$ 1,947	\$ 1,947
Restricted for debt service	77,934	36,086	621	114,641
Restricted for loan purposes	207,869	220,892	-	428,761
Total net position	<u>\$ 285,803</u>	<u>\$ 256,978</u>	<u>\$ 2,568</u>	<u>\$ 545,349</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF NET POSITION**  
**DECEMBER 31, 2018**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Restricted				
Restricted cash and cash equivalents	\$ 68,896	\$ 11,683	\$ 277	\$ 80,856
Interest receivable	2,771	2,599	563	5,933
Investments	26,829	37,110	800	64,739
Municipal securities	16,520	14,089	7,361	37,970
Total restricted current assets	<u>115,016</u>	<u>65,481</u>	<u>9,001</u>	<u>189,498</u>
Total current assets	<u>115,016</u>	<u>65,481</u>	<u>9,001</u>	<u>189,498</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>				
Investments	44,098	48,701	-	92,799
Municipal securities	334,156	308,496	147,840	790,492
Total restricted noncurrent assets	<u>378,254</u>	<u>357,197</u>	<u>147,840</u>	<u>883,291</u>
Total assets	<u>\$ 493,270</u>	<u>\$ 422,678</u>	<u>\$ 156,841</u>	<u>\$ 1,072,789</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on bond refunding	\$ 1,444	\$ 2,358	\$ -	\$ 3,802
Derived from pension	-	-	113	113
Total deferred outflows of resources	<u>\$ 1,444</u>	<u>\$ 2,358</u>	<u>\$ 113</u>	<u>\$ 3,915</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 26	\$ 44	\$ 43	\$ 113
Rebate due to IRS	-	3	-	3
Bonds payable	10,707	9,673	6,580	26,960
Interest payable	2,335	1,898	569	4,802
Total current liabilities	<u>13,068</u>	<u>11,618</u>	<u>7,192</u>	<u>31,878</u>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable	207,119	168,951	146,870	522,940
Net pension liability	-	-	279	279
Total noncurrent liabilities	<u>207,119</u>	<u>168,951</u>	<u>147,149</u>	<u>523,219</u>
Total liabilities	<u>\$ 220,187</u>	<u>\$ 180,569</u>	<u>\$ 154,341</u>	<u>\$ 555,097</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Derived from pension	\$ -	\$ -	\$ 21	\$ 21
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 21</u>
<b>NET POSITION</b>				
Unrestricted	\$ -	\$ -	\$ 1,919	\$ 1,919
Restricted for debt service	66,926	31,211	673	98,810
Restricted for loan purposes	207,601	213,256	-	420,857
Total net position	<u>\$ 274,527</u>	<u>\$ 244,467</u>	<u>\$ 2,592</u>	<u>\$ 521,586</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2019**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING REVENUES</b>				
Investment income	\$ 7,538	\$ 6,755	\$ 6,582	\$ 20,875
Grant and set-asides	-	1,089	-	1,089
Administrative fees and other	1,773	1,607	226	3,606
	<u>9,311</u>	<u>9,451</u>	<u>6,808</u>	<u>25,570</u>
<b>OPERATING EXPENSES</b>				
Interest expense	7,825	6,181	6,583	20,589
State Revolving Fund loan forgiveness	844	1,662	-	2,506
State Revolving Fund administration	741	1,294	-	2,035
State Revolving Fund set-asides	-	228	-	228
Rebate (Benefit) due to IRS	4	(3)	-	1
Salaries and benefits	-	-	236	236
Operating	-	-	63	63
Paying agent fees	-	-	1	1
	<u>9,414</u>	<u>9,362</u>	<u>6,883</u>	<u>25,659</u>
<b>OPERATING GAIN (LOSS)</b>	<u>(103)</u>	<u>89</u>	<u>(75)</u>	<u>(89)</u>
<b>NONOPERATING REVENUE</b>				
Grant and set-asides	7,779	9,570	-	17,349
Investment income	3,600	2,852	51	6,503
	<u>11,379</u>	<u>12,422</u>	<u>51</u>	<u>23,852</u>
<b>INCOME BEFORE TRANSFERS</b>	11,276	12,511	(24)	23,763
<b>TRANSFERS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	11,276	12,511	(24)	23,763
<b>TOTAL NET POSITION, BEGINNING OF YEAR,</b>	<u>274,527</u>	<u>244,467</u>	<u>2,592</u>	<u>521,586</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 285,803</u>	<u>\$ 256,978</u>	<u>\$ 2,568</u>	<u>\$ 545,349</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2018**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING REVENUES</b>				
Investment income	\$ 7,461	\$ 5,960	\$ 6,769	\$ 20,190
Grant and set-asides	-	1,063	-	1,063
Administrative fees and other	1,727	1,309	229	3,265
	<u>9,188</u>	<u>8,332</u>	<u>6,998</u>	<u>24,518</u>
<b>OPERATING EXPENSES</b>				
Interest expense	7,712	5,596	6,813	20,121
State Revolving Fund loan forgiveness	531	1,631	-	2,162
State Revolving Fund administration	723	1,376	-	2,099
State Revolving Fund set-asides	-	212	-	212
Rebate due to IRS	-	12	-	12
Salaries and benefits	-	-	266	266
Bond Issue Costs	266	456	-	722
Operating	-	-	43	43
Paying agent fees	-	-	2	2
	<u>9,232</u>	<u>9,283</u>	<u>7,124</u>	<u>25,639</u>
<b>OPERATING GAIN (LOSS)</b>	<u>(44)</u>	<u>(951)</u>	<u>(126)</u>	<u>(1,121)</u>
<b>NONOPERATING REVENUE</b>				
Grant and set-asides	7,859	8,763	-	16,622
Investment income	2,710	2,977	47	5,734
	<u>10,569</u>	<u>11,740</u>	<u>47</u>	<u>22,356</u>
<b>INCOME BEFORE TRANSFERS</b>	10,525	10,789	(79)	21,235
<b>TRANSFERS</b>	<u>(12,156)</u>	<u>12,156</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	(1,631)	22,945	(79)	21,235
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>276,158</u>	<u>221,522</u>	<u>2,671</u>	<u>500,351</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 274,527</u>	<u>\$ 244,467</u>	<u>\$ 2,592</u>	<u>\$ 521,586</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING ACTIVITIES</b>				
Receipts of administrative fees from customers	\$ 1,773	\$ 1,607	\$ 226	\$ 3,606
Grant and set-asides	-	1,089	-	1,089
Payments to service providers	(759)	(1,562)	(82)	(2,403)
Payments to employees	-	-	(212)	(212)
Payment of rebate to IRS	(4)	-	-	(4)
<b>NET CASH FROM (USED FOR)</b> <b>OPERATING ACTIVITIES</b>	<u>1,010</u>	<u>1,134</u>	<u>(68)</u>	<u>2,076</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Grant and set-asides	7,779	9,570	-	17,349
Interest paid on bonds payable	(9,336)	(7,576)	(6,604)	(23,516)
Proceeds from issuance of bonds payable	-	-	2,515	2,515
Principal payments on bonds payable	(10,824)	(10,156)	(7,660)	(28,640)
<b>NET CASH FROM (USED FOR)</b> <b>NONCAPITAL FINANCING ACTIVITIES</b>	<u>(12,381)</u>	<u>(8,162)</u>	<u>(11,749)</u>	<u>(32,292)</u>
<b>INVESTING ACTIVITIES</b>				
Interest received on investments and municipal securities	11,216	9,872	6,653	27,741
Proceeds from maturities and sales of investments	49,427	62,108	200	111,735
Purchases of investments	(46,063)	(8,644)	-	(54,707)
Proceeds from maturities of municipal securities	23,155	17,155	8,186	48,496
Purchases of municipal securities	(47,556)	(50,001)	(2,767)	(100,324)
<b>NET CASH FROM (USED FOR)</b> <b>INVESTING ACTIVITIES</b>	<u>(9,821)</u>	<u>30,490</u>	<u>12,272</u>	<u>32,941</u>
<b>NET CHANGE IN CASH</b> <b>AND CASH EQUIVALENTS</b>	(21,192)	23,462	455	2,725
<b>CASH AND CASH</b> <b>EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>68,896</u>	<u>11,683</u>	<u>277</u>	<u>80,856</u>
<b>CASH AND CASH</b> <b>EQUIVALENTS AT END OF YEAR</b>	<u>\$ 47,704</u>	<u>\$ 35,145</u>	<u>\$ 732</u>	<u>\$ 83,581</u>

**COMBINING STATEMENT OF CASH FLOWS – CONTINUED**  
**YEAR ENDED DECEMBER 31, 2019**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating gain (loss)	\$ (103)	\$ 89	\$ (75)	\$ (89)
Adjustments to reconcile operating loss to net cash from operating activities				
Net amortization of premium on bonds payable	1,388	1,274	-	2,662
Reclassification of investment income and expense to other activities	(257)	(186)	1	(442)
Changes in assets and liabilities				
Pension Accruals			24	24
Accounts payable	(18)	(40)	(18)	(76)
Rebate due IRS		(3)	-	(3)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,010</u>	<u>\$ 1,134</u>	<u>\$ (68)</u>	<u>\$ 2,076</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2018**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING ACTIVITIES</b>				
Receipts of administrative fees from customers	\$ 1,727	\$ 1,309	\$ 229	\$ 3,265
Grant and set-asides	-	1,063	-	1,063
Payments to service providers	(967)	(2,001)	9	(2,959)
Payments to employees	-	-	(266)	(266)
Payment of rebate to IRS	-	(23)	-	(23)
<b>NET CASH FROM (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>	<u>760</u>	<u>348</u>	<u>(28)</u>	<u>1,080</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Grant and set-asides	7,859	8,763	-	16,622
Transfers	(12,156)	12,156	-	-
Interest paid on bonds payable	(8,160)	(5,209)	(6,828)	(20,197)
Proceeds from bond premiums	8,109	14,005	-	22,114
Proceeds from issuance of bonds payable	47,165	81,460	1,360	129,985
Principal payments on bonds payable	(8,970)	(7,215)	(8,035)	(24,220)
<b>NET CASH FROM (USED FOR)</b>				
<b>NONCAPITAL FINANCING ACTIVITIES</b>	<u>33,847</u>	<u>103,960</u>	<u>(13,503)</u>	<u>124,304</u>
<b>INVESTING ACTIVITIES</b>				
Interest received on				
investments and municipal securities	10,143	8,407	6,822	25,372
Proceeds from maturities				
and sales of investments	37,244	59,299	3,627	100,170
Purchases of investments	(49,361)	(97,874)	(1,775)	(149,010)
Proceeds from maturities				
of municipal securities	24,309	19,399	7,167	50,875
Purchases of municipal securities	(28,590)	(85,704)	(2,194)	(116,488)
<b>NET CASH (USED FOR)</b>				
<b>INVESTING ACTIVITIES</b>	<u>(6,255)</u>	<u>(96,473)</u>	<u>13,647</u>	<u>(89,081)</u>
<b>NET CHANGE IN CASH</b>				
<b>AND CASH EQUIVALENTS</b>	<u>28,352</u>	<u>7,835</u>	<u>116</u>	<u>36,303</u>
<b>CASH AND CASH</b>				
<b>EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>40,544</u>	<u>3,848</u>	<u>161</u>	<u>44,553</u>
<b>CASH AND CASH</b>				
<b>EQUIVALENTS AT END OF YEAR</b>	<u>\$ 68,896</u>	<u>\$ 11,683</u>	<u>\$ 277</u>	<u>\$ 80,856</u>

**COMBINING STATEMENT OF CASH FLOWS – CONTINUED**  
**YEAR ENDED DECEMBER 31, 2018**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>RECONCILIATION OF OPERATING GAIN</b>				
<b>(LOSS) TO NET CASH FROM</b>				
<b>OPERATING ACTIVITIES</b>				
Operating gain (loss)	\$ (44)	\$ (951)	\$ (126)	\$ (1,121)
Adjustments to reconcile operating loss to net cash used for operating activities				
Bond financing costs	266	456	-	722
Net amortization of premium on bonds payable	941	551	-	1,492
Reclassification of investment income and expense to other activities	(425)	259	45	(121)
Changes in assets and liabilities				
Pension Accruals			31	31
Accounts payable	22	43	22	87
Rebate due IRS	-	(10)	-	(10)
	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>(10)</u>
<b>NET CASH FROM (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>	<u>\$ 760</u>	<u>\$ 348</u>	<u>\$ (28)</u>	<u>\$ 1,080</u>



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**INDEPENDENT AUDITOR'S SPECIFIC COMMENTS  
REQUESTED BY THE NORTH DAKOTA LEGISLATIVE  
AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED DECEMBER 31, 2019**

Governor Doug Burgum  
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, 2019 audit of the North Dakota Public Finance Authority are as follows:

**Audit Report Communications**

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no findings from the prior year

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

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, the process used by management to formulate the accounting estimates, and the basis for the auditor’s conclusions regarding the reasonableness of these estimates.

None

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

The North Dakota Public Finance Authority has one critical information technology system. There were no exceptions identified that were related to this application.

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



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

March 20, 2020



**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 Doug Burgum  
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 business-type activities of North Dakota Public Finance Authority, an agency of the State of North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the North Dakota Public Finance Authority's basic financial statements, and have issued our report thereon dated March 20, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Public Finance Authority'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 North Dakota Public Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Public Finance Authority'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 North Dakota Public Finance Authority'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

March 20, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota  
Bismarck, North Dakota

**Report on Compliance for the Major Federal Program**

We have audited North Dakota Public Finance Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the North Dakota Public Finance Authority's major federal program for the year ended December 31, 2019. North Dakota Public Finance Authority's major federal program is 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 the North Dakota Public Finance Authority's major federal program 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 types 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 North Dakota Public Finance Authority'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 the major federal program. However, our audit does not provide a legal determination of North Dakota Public Finance Authority's compliance.

**Opinion on the Major Federal Program**

In our opinion, North Dakota Public Finance Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major Federal program for the year ended December 31, 2019.

## Report on Internal Control over Compliance

Management of North Dakota Public Finance Authority 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 North Dakota Public Finance Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 North Dakota Public Finance Authority'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 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 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.



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

March 20, 2020

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2019**

**EXHIBIT A-4**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures (In Thousands)</u>	<u>Amounts Passed- Through to Subrecipients (In Thousands)</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed Through the North Dakota Department of Health			
Clean Water State Revolving Funds Cluster:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 7,779	\$ 7,779
Drinking Water State Revolving Funds Cluster:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>10,587</u>	<u>9,570</u>
Total Environmental Protection Agency		<u>\$ 18,366</u>	<u>\$ 17,349</u>

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement.

**NOTE 2 - INDIRECT COST RATE**

The agency has not elected to use the 10% de minimis cost rate.

**NOTE 3 - AGENCY OR PASS-THROUGH NUMBER**

The pass-through entity has not provided us with the identifying number on all programs; therefore, they are not included in this schedule.

**NOTE 4 - SUBRECIPIENTS**

The amounts passed through to sub-recipients consist entirely of loans advanced to the sub-recipients.

The North Dakota Public Finance Authority also has outstanding loan balances to sub-recipients from prior years. These balances are not included on the accompanying schedule of expenditures and federal awards because the federal government imposes no continuing compliance requirements on the sub-recipient.

**A. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None.

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**Section I – Summary of Auditor’s Results**

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Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor’s report issued on compliance for 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:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee	Yes

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**Section II – Financial Statement Findings**

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No financial statement findings reported in the current year.

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**Section III – Federal Award Findings and Questioned Costs**

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No federal award findings reported in the current year.



**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of North Dakota Public Finance Authority for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 12, 2019. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Public Finance Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by North Dakota Public Finance Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

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

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 20, 2020.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to North Dakota Public Finance Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as North Dakota Public Finance Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, schedule of employer’s share of net pension liability, and schedule of employer contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining financial statements and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management of North Dakota Public Finance Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



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

March 20, 2020