



Financial Statements
June 30, 2020

Small Employer Loan Fund (SELF)

SMALL EMPLOYER LOAN FUND

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Small Employer Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the period of April 29, 2020 through June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2020, and the respective changes in its financial position and its cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2020, and the changes in its financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2020 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota
October 26, 2020

SMALL EMPLOYER LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Dollars in Thousands)

The management discussion and analysis of the Small Employer Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the period ended June 30, 2020. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Small Employer Loan Fund was established by Bank of North Dakota to assist local financial institutions and certified development corporations in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 pandemic. The program is available to North Dakota businesses with an employee count of 10 full-time equivalents or less. Eligible borrowers may use the proceeds to support working capital needs, recurring expenses and replenish inventory. Additionally, the funds may be used to term out COVID-19 related bridge loans or credit card debt originated on or after March 13, 2020, not to exceed 20% of the maximum loan amount.

Loans made by the Fund may not exceed fifty thousand dollars, must have an interest rate of one percent, and must have a repayment schedule that does not exceed ten years. For the period ended June 30, 2020, there were 432 loans originated for \$14,258. As of June 30, 2020, the gross amount of outstanding loans is \$14,257 with an allowance for credit losses of \$1,141, for net loans of \$13,116.

There were 72 loan commitments for \$2,799 as of June 30, 2020.

Funds available for investment in loans as of June 30, 2020 were \$5,593.

REQUIRED FINANCIAL STATEMENTS:

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

SMALL EMPLOYER LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Dollars in Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS	
Cash and cash equivalents	\$ 5,593
Loans, net	13,116
Interest receivable	<u>13</u>
TOTAL ASSETS	<u>\$ 18,722</u>
LIABILITIES	<u>\$ 7</u>
NET POSITION - UNRESTRICTED	<u>18,715</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,722</u>

Loans

There were 432 loans made during the period. As of June 30, 2020, there are 432 loans outstanding totaling \$14,257 with an allowance for credit losses of \$1,141 for net loans of \$13,116.

Net Position

All monies transferred to the Fund, interest upon monies in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursements. Net position of the Fund at June 30, 2020 was \$18,715.

SMALL EMPLOYER LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Dollars in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE PERIOD OF APRIL 29, 2020 THROUGH JUNE 30, 2020

OPERATING REVENUES	<u>\$ 13</u>
OPERATING EXPENSES	<u>1,300</u>
OPERATING LOSS	(1,287)
NONOPERATING REVENUES	
Investment income	<u>2</u>
LOSS BEFORE TRANSFERS	(1,285)
TRANSFERS	
Transfers from Bank of North Dakota	<u>20,000</u>
CHANGE IN NET POSITION	18,715
TOTAL NET POSITION, BEGINNING OF PERIOD	<u>-</u>
TOTAL NET POSITION, END OF PERIOD	<u><u>\$ 18,715</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. A loan made from the Fund must have an interest rate of one percent.

Expenses

The provision for credit loss was \$1,141 for the period ended June 30, 2020. The provision in 2020 was due to loan volume and provides an allowance for potential credit losses. Other expenses include an administration fee paid to Bank of North Dakota in the amount of one-half percent of any outstanding loans and an independent audit of the financial records. For the period ended June 30, 2020, administration fees totaling \$7 have been charged. The Fund also pays a one-time loan service fee to the lead financial institution of two hundred fifty dollars for loans of twenty-five thousand or less, or one percent of loans originated over twenty-five thousand. For the period ended June 30, 2020, loan service fees totaling \$152 have been paid by the Fund.

**SMALL EMPLOYER LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Dollars in Thousands)**

Nonoperating Revenue

Nonoperating revenue represents interest earned on cash and cash equivalents.

Transfers

For period ended June 30, 2020, the Fund received \$20,000 in transfers from Bank of North Dakota.

ECONOMIC FACTORS AND FUTURE OUTLOOK

There were 72 outstanding commitments to extend credit for \$2,799. The term of the loan may not exceed ten years. Loans made by the Fund may not exceed fifty thousand dollars and must have an interest rate of one percent. Bank of North Dakota will transfer up to \$50,000, or so much of the sum as may be necessary. As of June 30, 2020, the Fund has up to \$30,000 available for transfer.

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

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

SMALL EMPLOYER LOAN FUND
STATEMENT OF NET POSITION
JUNE 30, 2020
(Dollars in Thousands)

ASSETS

Current Assets

Cash and cash equivalents	\$	5,593
Loans, current portion		833
Interest receivable		13

Total current assets 6,439

Noncurrent Assets

Loans, net of allowance for loan losses of \$1,141 in 2020		<u>12,283</u>
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Total assets \$ 18,722

LIABILITIES

Current Liabilities \$ 7

NET POSITION

Unrestricted 18,715

Total liabilities and net position \$ 18,722

SMALL EMPLOYER LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE PERIOD APRIL 29, 2020 THROUGH JUNE 30, 2020
(Dollars in Thousands)

OPERATING REVENUES	
Interest on loans	<u>\$ 13</u>
OPERATING EXPENSES	
Administrative fees	7
Loan fee	152
Provision for loan loss	<u>1,141</u>
Total Operating Expenses	<u>1,300</u>
OPERATING LOSS	(1,287)
NONOPERATING REVENUES	
Investment income	<u>2</u>
LOSS BEFORE TRANSFERS	(1,285)
TRANSFERS IN	
Transfers from Bank of North Dakota	<u>20,000</u>
CHANGE IN NET POSITION	18,715
TOTAL NET POSITION, BEGINNING OF PERIOD	<u>-</u>
TOTAL NET POSITION, END OF PERIOD	<u><u>\$ 18,715</u></u>

SMALL EMPLOYER LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD OF APRIL 29, 2020 THROUGH JUNE 30, 2020
(Dollars in Thousands)

OPERATING ACTIVITIES	
Payment of loan service fees	<u>\$ (152)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(152)</u>
NON-CAPITAL FINANCING ACTIVITIES	
Transfers from Bank of North Dakota	<u>20,000</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>20,000</u>
INVESTING ACTIVITIES	
Investment income received	2
Loans advanced	(14,258)
Proceeds from principal collections on loans	<u>1</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(14,255)</u>
NET CHANGE IN CASH	5,593
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 5,593</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (1,287)
Adjustments to reconcile operating loss to net cash used for operating activities	
Adjustment for provision for loan loss	1,141
Increase in due to Bank of North Dakota	7
Reclassification of items to other activities	
Interest income on loans	<u>(13)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (152)</u></u>

SMALL EMPLOYER LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Small Employer Loan Fund was established by Bank of North Dakota to assist local financial institutions and certified development corporations in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 pandemic. The program is available to North Dakota businesses with an employee count of 10 full-time equivalents or less. Eligible borrowers may use the proceeds to support working capital needs, recurring expenses and replenish inventory. Additionally, the funds may be used to term out COVID-19 related bridge loans or credit card debt originated on or after March 13, 2020, not to exceed 20% of the maximum loan amount.

Loans made by the Fund may not exceed fifty thousand dollars, must have an interest rate of one percent, and must have a repayment schedule that does not exceed ten years.

Reporting Entity

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

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

Use of Estimates

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

(continued on next page)

SMALL EMPLOYER LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(Dollars in Thousands)

Significant Group Concentrations of Credit Risk

All of the Fund's activity is with small businesses within the State of North Dakota. Concentrations of credit risk are present in the Fund.

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate of one percent on the unpaid principal balance. No collateral is required for loans \$25 and under. A shared lien on all business assets is required for loans over \$25.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

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

NOTE 2 - DEPOSITS

Deposits

The value and bank balance of the Fund's cash deposits at June 30, 2020 was \$5,593. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

(continued on next page)

SMALL EMPLOYER LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(Dollars in Thousands)

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

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

Loans, current portion	\$ 833
Loans, noncurrent portion	<u>13,424</u>
Total loans	14,257
Allowance for loan losses	<u>1,141</u>
Total loans, net	<u><u>\$ 13,116</u></u>

Changes in the balances of loans are as follows:

Balance, April 29, 2020	\$ -
Loan advances	14,258
Principal collections	<u>(1)</u>
Balance, June 30, 2020	<u><u>\$ 14,257</u></u>

Changes in allowance for loan losses are as follows:

Balance, beginning of period	\$ -
Provision for loan losses	<u>1,141</u>
Balance, end of period	<u><u>\$ 1,141</u></u>

There were no impaired loans as of June 30, 2020. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2020.

SMALL EMPLOYER LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(Dollars in Thousands)

NOTE 4 - RELATED PARTY TRANSACTIONS

Bank of North Dakota will transfer up to \$50,000, or so much of the sum as may be necessary. During the period ended June 30, 2020, Bank of North Dakota transferred \$20,000 to the Fund. As of June 30, 2020, the Fund has up to \$30,000 available for transfer.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the program \$7 for administration fees and \$152 for loan fees during the period ended June 30, 2020, of which the Fund owed the Bank \$7 as of June 30, 2020.

NOTE 5 - LOAN COMMITMENTS

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

The Fund's exposure to loan loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were 72 pending loan commitments totaling \$2,799 as of June 30, 2020.

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

NOTE 6 - RISK MANAGEMENT

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

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

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

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Small Employer Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the period April 29, 2020 through June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund’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 Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bismarck, North Dakota
October 26, 2020



**Small Employer Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Period of April 29, 2020 through June 30, 2020**

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

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

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

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 26, 2020



October 26, 2020

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

We have audited the financial statements of Small Employer Loan Fund (the Fund) as of and for the period of April 29, 2020 through June 30, 2020, and have issued our report thereon dated October 26, 2020. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated July 15, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our comments regarding any significant control deficiencies during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated October 26, 2020.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Fund's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 26, 2020.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Modification of the Auditor’s Report

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

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2020, and the changes in its financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

A handwritten signature in cursive script that reads "Eric Sully LLP".

Bismarck, North Dakota