



Financial Statements  
December 31, 2021 and 2020

# Beginning Farmer Revolving Loan Fund

## BEGINNING FARMER REVOLVING LOAN FUND

### Table of Contents

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	<u>Exhibit</u>	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b>		1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>		4
<b>FINANCIAL STATEMENTS</b>		
Balance Sheets		8
Statements of Revenues, Expenditures and Changes in Fund Balance		9
Notes to Financial Statements		10
<b>EXHIBITS</b>		
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 <i>Government Auditing Standards</i>	A-1	15
Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	18
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B-1	21



## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Beginning Farmer Revolving Loan Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the years ended December 31, 2021 and 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of December 31, 2021 and 2020, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

##### *Reporting Entity*

As discussed in Note 1, the financial statements of Beginning Farmer Revolving Loan Fund are intended to present the financial position and changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of Beginning Farmer Revolving Loan Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2021 and 2020 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 our report dated April 4, 2022 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
April 4, 2022

**BEGINNING FARMER REVOLVING LOAN FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021, 2020 AND 2019  
(Dollars in Thousands)**

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The management discussion and analysis of the Beginning Farmer Revolving Loan Fund (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended December 31, 2021, 2020, and 2019. Please read it in conjunction with the financial statements of the Fund.

**FINANCIAL HIGHLIGHTS:**

*Beginning Farmer Real Estate Loans:*

Beginning Farmer Real Estate loans are funded directly by Bank of North Dakota (BND), with the Fund providing buy down funds, to the extent available, to reduce the borrower's interest rate by 2% for the first five years of the loan. The borrower is limited to \$750 in total loans. There were 89 loans totaling \$28,904 made during 2021 with this program. These loans will require \$5,174 in buy down interest during the life of the loans. There were 46 loans totaling \$13,038 made during 2020 with this program. These loans will require \$2,336 in buy down interest during the life of the loans. There were 68 loans totaling \$18,877 made during 2019 with this program. These loans will require \$2,349 in buy down interest during the life of the loans. There are currently 362 loans outstanding totaling \$100,585 made directly by the Bank of North Dakota that are receiving buy down interest from the Fund.

*Beginning Farmer Chattel Loans Originated out of the Fund:*

There are two components to this program. These loans are made in conjunction with a lead lender. BND is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. These loans are secured by a first security interest on the chattel with a maximum loan to collateral value of 80%. The borrowers are limited to \$750 in total loans. The second component of this program provides for interest buy down on the lead lender's share of the loan. The lead lender's interest rate may not exceed 2% over BND's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy down funds are provided through the chattel loan program, to the extent available, to reduce the borrower's interest rate by up to 4% subject to a minimum rate of 1% to the borrower.

There were 55 loans totaling \$4,967 made during 2021 with this loan program, of which BND participated in \$2,441. These loans will utilize \$332 in buy down interest. There were 101 loans totaling \$11,177 made during 2020 with this loan program, of which BND participated in \$5,778. These loans will utilize \$750 in buy down interest. There were 89 loans totaling \$9,248 made during 2019 with this loan program, of which BND participated in \$4,050. These loans will utilize \$548 in buy down interest.

*Beginning Farmer Revolving Fund Balance Summary:*

Cash available to provide interest buy down to beginning farmers for both chattel and real estate purchases was \$2,617 as of December 31, 2021. There was a \$8,000 appropriation from BND's undivided profits for the biennium July 1, 2021 through June 30, 2023 for interest buy down purposes to beginning farmers, of which \$3,000 was transferred to the Beginning Farmer Revolving Loan Fund as of December 31, 2021. There was \$6,000 appropriated from BND's undivided profits for the biennium July 1, 2019 through June 30, 2021 for interest buy down purposes to beginning farmers, of which \$6,000 was transferred to the Fund.

**BEGINNING FARMER REVOLVING LOAN FUND  
MANAGEMENT’S DISCUSSION AND ANALYSIS – CONTINUED  
DECEMBER 31, 2021, 2020 AND 2019  
(Dollars in Thousands)**

*Envest Loans Funded by BND and a Lead Lender:*

Section 6-09-15.5 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000 can be transferred from the Fund during a biennium. There were no new Envest loans made during 2021, 2020, or 2019.

**REQUIRED FINANCIAL STATEMENTS:**

The Fund is a special revenue fund and uses the accrual basis of accounting. The basic financial statements include the balance sheets and statements of revenues, expenditures, and changes in fund balance. The balance sheet provides readers the assets and liabilities of the Fund, with the differences between the two reported as fund balance. The statement of revenues, expenditures, and changes in fund balance identify the operating performance of the Fund for the calendar year.

**CONDENSED BALANCE SHEETS  
DECEMBER 31, 2021, 2020 AND 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Cash deposits	\$ 2,617	\$ 6,159	\$ 6,264
Prepaid interest	11,212	8,266	6,701
Total assets	<u>\$ 13,829</u>	<u>\$ 14,425</u>	<u>\$ 12,965</u>
FUND BALANCE	<u>\$ 13,829</u>	<u>\$ 14,425</u>	<u>\$ 12,965</u>

*Fund Balance*

At December 31, 2021, 2020, and 2019, fund balance was \$13,829, \$14,425, and \$12,965, respectively. The decrease in fund balance from 2020 to 2021 was due to an operating loss of \$2,360 offset by net transfers in of \$1,760. The increase in fund balance from 2019 to 2020 was due to transfers of \$3,750 offset by an operating loss of \$2,300. As described in Note 1, direct real estate loan and chattel loan interest buydowns are funded directly from the fund balance of the Fund. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

**BEGINNING FARMER REVOLVING LOAN FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
DECEMBER 31, 2021, 2020 AND 2019  
(Dollars in Thousands)**

**CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES	\$ -	\$ -	\$ -
OPERATING EXPENDITURES	<u>2,360</u>	<u>2,323</u>	<u>2,387</u>
OPERATING LOSS	(2,360)	(2,323)	(2,387)
NONOPERATING REVENUES	<u>4</u>	<u>33</u>	<u>13</u>
LOSS BEFORE TRANSFERS	(2,356)	(2,290)	(2,374)
TRANSFERS, NET	<u>1,760</u>	<u>3,750</u>	<u>3,430</u>
CHANGE IN FUND BALANCE	(596)	1,460	1,056
FUND BALANCE, BEGINNING OF YEAR	<u>14,425</u>	<u>12,965</u>	<u>11,909</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 13,829</u></u>	<u><u>\$ 14,425</u></u>	<u><u>\$ 12,965</u></u>

*Expenditures*

Buy down interest is paid to the banks that participate in the various programs of the Fund. Other expenses are for the independent audit of the financial records and miscellaneous expenditures incurred in connection with loan servicing.

*Nonoperating Revenue*

Nonoperating revenues represent interest earned on the cash balance as well as recoveries of previously charged off loans. Since the Fund no longer carries loans or an allowance, recoveries are recorded as nonoperating revenues.



**BEGINNING FARMER REVOLVING LOAN FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
DECEMBER 31, 2021, 2020 AND 2019  
(Dollars in Thousands)**

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*Changes in Fund Balance*

Fund balance decreased by \$596 or 4.1% for the year ended December 31, 2021, increased by \$1,460 or 11.3% for the year ended December 31, 2020, and increased by \$1,056 or 8.9% for the year ended December 31, 2019.

**ECONOMIC CONDITION AND OUTLOOK**

Senate Bill 2197 of the 2019 Legislative Assembly added a ten year fixed rate option for borrowers. This is likely to become the preferred option going forward.

**CONTACTING THE LOAN 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.

**BEGINNING FARMER REVOLVING LOAN FUND**  
**BALANCE SHEETS**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current Assets		
Cash deposits at the Bank of North Dakota	\$ 2,617	\$ 6,159
Prepaid interest, current portion	<u>2,485</u>	<u>2,301</u>
Total current assets	<u>5,102</u>	<u>8,460</u>
Noncurrent Assets		
Prepaid interest	<u>8,727</u>	<u>5,965</u>
Total noncurrent assets	<u>8,727</u>	<u>5,965</u>
Total assets	<u>\$ 13,829</u>	<u>\$ 14,425</u>
<b>FUND BALANCE</b>	<u>\$ 13,829</u>	<u>\$ 14,425</u>

**BEGINNING FARMER REVOLVING LOAN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENDITURES		
Buy-down interest	2,354	2,317
Audit expenses	6	6
	<u>2,360</u>	<u>2,323</u>
OPERATING LOSS	(2,360)	(2,323)
NONOPERATING REVENUES		
Recovery of charge-off	-	23
Income from cash deposits	4	10
	<u>4</u>	<u>33</u>
LOSS BEFORE TRANSFERS	<u>(2,356)</u>	<u>(2,290)</u>
TRANSFERS		
Transfer from Bank of North Dakota	3,500	3,750
Transfer from AG PACE	1,500	-
Transfer to AG PACE	(3,240)	-
NET TRANSFERS IN	<u>1,760</u>	<u>3,750</u>
CHANGE IN FUND BALANCE	(596)	1,460
FUND BALANCE, BEGINNING OF YEAR	<u>14,425</u>	<u>12,965</u>
FUND BALANCE, END OF YEAR	<u>\$ 13,829</u>	<u>\$ 14,425</u>

**BEGINNING FARMER REVOLVING LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09.8 of the North Dakota Century Code (NDCC) established the Beginning Farmer Revolving Loan Fund (Fund). The purpose of the Fund is to make or participate in loans to North Dakota beginning farmers for the purchase of agricultural real estate, equipment, and livestock. The Fund is a revolving fund, and all moneys transferred into the fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest on loans made from the fund are appropriated for the purpose of providing loans and to supplement the interest rate on loans to beginning farmers.

The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund. Four programs have been established under the Fund, including two direct loan programs and two interest buy-down programs.

**Direct Real Estate Loans**

Direct real estate loans may not exceed 75% of the current appraised value of the farm real estate on which the Fund receives a first mortgage as security. The total loan amount was increased from \$100 to \$150 in 1999, to \$250 in 2005, to \$400 in 2009, to \$500 in 2013, and to \$750 in 2018. The borrower is restricted to a lifetime cap of \$750 under this program. The term of the loan may not exceed 30 years. A loan made from the Fund must have either a fixed rate at 1% below the Bank of North Dakota's then current base rate for ten years or 1% below the Bank's then current base rate for the first five years with a maximum rate of six percent per year and variable at one percent below the Bank's current base rate for the second five years. During the second five years, the variable rate must be adjusted annually on the anniversary date. The rate during the remaining term of the loan floats at the Bank's base rate as in effect at that time.

**Interest Buy Downs on Real Estate Loans**

The Bank of North Dakota makes direct loans to beginning farmers for the purchase of farm real estate. The loans are restricted to the same terms as indicated above. The interest rate for the first five years is supplemented by 2% per annum from the Fund.

**Chattel Loans**

A participation loan for the purchase of equipment or livestock may not exceed 80% of the agricultural collateral on which the Fund receives a first security interest as collateral. The Fund is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. The total loan amount was increased from \$250 to \$400 in 2009, from \$400 to \$500 in 2013, and from \$500 to \$750 in 2018. The borrower is restricted to a lifetime cap of \$750 under this program for the purchase of equipment or livestock. The term of the loan may not exceed seven years. The interest rate on the Fund's share of the chattel loan will be fixed at 1% below the Bank of North Dakota's then current base rate for the first five years of the loan with maximum interest rate of 6% and variable at 1% below the Bank's then current base rate adjusted annually for the next two years.

**Interest Buy Downs on Chattel Loans**

The lead lender's interest rate of the chattel loan will be set according to prevailing market rates, but may not exceed 2% over the Bank of North Dakota's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy down funds, to the extent they are available, are used to reduce the lead lender's rate by 4% subject to a minimum rate of 1% to the borrower.

**BEGINNING FARMER REVOLVING LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

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**Interest Buy Downs on Envest Loans**

Section 6-09.8 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000 can be transferred from the Fund during a biennium.

*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.

*Accounting Standards*

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

*Fund Accounting*

The Fund is a special revenue 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. Special revenue funds are accounted for using the current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

*Credit Related Financial Instruments*

In the ordinary course of business, the Program has entered into commitments to buy down interest rates on loans. Such financial instruments are recorded when they are funded.

**BEGINNING FARMER REVOLVING LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

*Fund Balance Classifications*

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**NOTE 2 - DEPOSITS**

The carrying value and bank balance of the Fund’s cash deposits at December 31, 2021 and 2020 was \$2,617 and \$6,159, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

*Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the 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 deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

**NOTE 3 - PREPAID INTEREST AND COMMITMENTS**

A description of the interest buy down programs is included under “Nature of Operations” in Note 1. The monies that are being paid to the Bank of North Dakota and the other lead lenders to buy down the interest rate for qualifying loans is paid in advance. Prepaid interest is amortized over the life of the loans based upon the repayment terms of the loan for chattel and Envest loans. Prepaid interest is amortized over five years based upon the repayment terms of the loan for real estate loans. A summary of the balances of prepaid interest follows:

	<u>2021</u>	<u>2020</u>
Prepaid interest, current portion	\$ 2,485	\$ 2,301
Prepaid interest, noncurrent portion	<u>8,727</u>	<u>5,965</u>
Total prepaid interest	<u>\$ 11,212</u>	<u>\$ 8,266</u>

**BEGINNING FARMER REVOLVING LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

Changes in the balances of prepaid interest follow:

	Real Estate Loans (BND)	Chattel Loans (Other Banks)	Envest Loans	Total Prepaid Interest
Balance, January 1, 2020	\$ 5,276	\$ 1,425	\$ -	\$ 6,701
Additions, net of returns	3,213	669	-	3,882
Amortization	<u>(1,828)</u>	<u>(489)</u>	<u>-</u>	<u>(2,317)</u>
Balance, December 31, 2020	6,661	1,605	-	8,266
Additions, net of returns	5,039	261	-	5,300
Amortization	<u>(1,865)</u>	<u>(489)</u>	<u>-</u>	<u>(2,354)</u>
Balance, December 31, 2021	<u>\$ 9,835</u>	<u>\$ 1,377</u>	<u>\$ -</u>	<u>\$ 11,212</u>

The prepaid interest at the Bank of North Dakota is being utilized to buy down the interest rate on 362 loans with outstanding principal balances of \$100,585 as of December 31, 2021 and 352 loans with outstanding principal balances of \$92,287 as of December 31, 2020. The prepaid interest at other lead lenders is being utilized to buy down the interest rate on chattel loans made by participating banks involved with the chattel loan program.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During 2021, \$3,500 was transferred in from the Bank of North Dakota's undivided profits, \$1,500 was transferred in from the AG PACE Fund, and \$3,240 was transferred out to the AG PACE Fund. During 2020, \$3,750 was transferred in from the Bank of North Dakota's undivided profits.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buy downs on real estate and chattel loans, which is included in prepaid interest on the Fund's statement of condensed balance sheets (See Note 3).

**BEGINNING FARMER REVOLVING LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2021 AND 2020**  
**(Dollars in Thousands)**

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**NOTE 5 - 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 per person and \$1,000 per occurrence.

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

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





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

Governor of North Dakota and  
the Legislative Assembly  
Beginning Farmer Revolving Loan Fund  
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 Beginning Farmer Revolving Loan Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated April 4, 2022.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2021-001 that we consider to be a significant deficiency.

**Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Beginning Farmer Revolving Loan Fund's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on Beginning Farmer Revolving Loan Fund's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. Beginning Farmer Revolving Loan Fund's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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.

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

Bismarck, North Dakota  
April 4, 2022

Beginning Farmer Revolving Loan Fund  
Schedule of Findings and Responses  
Year Ended December 31, 2021

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**2021-001 – Loan Interest Buydown Error Resulting in a Passed Adjustment**

Criteria: A good system of internal controls includes an appropriate loan boarding process to ensure that the appropriate interest buydown on applicable loans is being calculated and recorded.

Condition: As a result of our audit procedures, we recalculated on a test basis, individual borrower's interest buydown and compared to the Bank's interest buydown recorded. We identified an error in the interest buydown recorded for one borrower resulting in a passed adjustment of approximately \$32,000 between cash and prepaid interest.

Cause: The internal control process of the loan boarding process failed to identify the incorrect interest buydown calculated on this individual loan.

Effect: Incorrect individual borrower balances could result in improperly recorded interest buydown which could result in misstatements to the financial statements.

Recommendation: We recommend a recalculation of interest buydown be performed during the loan boarding process which is then reviewed by someone independent of the individual boarding the loan.

Views of responsible officials: Management of the Bank agrees with the finding. Buydown interest will be adjusted to transfer additional buydowns to the prepaid interest account and amortized out for the remainder of the buydown period. Going forward additional checks will be added to the Beginning Farmer worksheet to verify the funded buydown interest amount and a field will be added to the boarding sheet to verify interest buydown is correct based on the factor.

**Beginning Farmer Revolving Loan Fund  
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and  
Fiscal Review Committee  
Year Ended December 31, 2021**

Governor of North Dakota and  
the Legislative Assembly  
Beginning Farmer Revolving Loan Fund  
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?

As discussed in the schedule of findings and responses, there was one internal control deficiency identified as a result of the audit.

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 Amortization of Prepaid Interest is based on the estimated life of the loan for Chattel and Envest loans, but over ten years based on repayment terms for Real Estate loans. We evaluated key factors and assumptions used to develop the Amortization of Prepaid Interest 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 Fund'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 Fund, and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Bismarck, North Dakota  
April 4, 2022



April 4, 2022

Governor of North Dakota and  
the Legislative Assembly  
Beginning Farmer Revolving Loan Fund  
Bismarck, North Dakota

We have audited the financial statements of Beginning Farmer Revolving Loan Fund (the Fund) as of and for the year ended December 31, 2021, and have issued our report thereon dated April 4, 2022. 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 *Government Auditing Standards***

As communicated in our letter dated January 13, 2022, 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 findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated April 4, 2022.

### **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.

### **Significant Risks Identified**

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks". We have identified the following as significant risks.

- Management Override of Controls – Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the Fund may have the ability to override controls that the Fund has implemented. Management may override the Fund's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the Fund's financial performance or with the intent of concealing fraudulent transactions.
- Improper Prepaid Interest Amortization – We identified improper prepaid interest amortization as a significant risk due to it being a significant estimate in the financial statements and inherently involving subjectivity based on management's key factors and assumptions.

### **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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2021. 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 estimate affecting the financial statements is:

Management's estimate of the Amortization of Prepaid Interest is based on the estimated life of the loan for Chattel and Envest loans, but over ten years based on repayment terms for Real Estate loans. We evaluated the key factors and assumptions used to develop the Amortization of Prepaid Interest 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. There are no sensitive disclosure affecting the Fund's financial statements.

### **Significant Unusual Transactions**

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were not any significant unusual transactions identified.

### **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. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no corrected misstatements identified as a result of our audit procedures.

The following summarizes the uncorrected financial statement misstatement whose effect in the current and prior periods, as determined by management, is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Overstatement of cash deposits at the Bank of North Dakota	\$32,000
Understatement of prepaid interest	\$32,000

The effect of this uncorrected misstatement had no effect on fund balance or changes in fund balance for the year ended December 31, 2021.

### **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.

### **Circumstances that Affect the Form and Content of the Auditor's Report**

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We did not identify any circumstances that affect the form and content of the auditor's report

### **Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated April 4, 2022.

### **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, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational 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 and changes in financial position 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 December 31, 2021 and 2020, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 "Eide Sully LLP".

Bismarck, North Dakota