



Financial Statements
June 30, 2022 and 2021

Infrastructure Revolving Loan Fund

INFRASTRUCTURE REVOLVING LOAN FUND

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Independent Auditor's Report

To the 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 Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2022 and 2021, and the related notes to the 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 financial position of the Fund, as of June 30, 2022 and 2021, and the changes in its financial position, and, where applicable, cash flows thereof 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

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, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.

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.

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 on pages 4 through 7 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 September 27, 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 27, 2022

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022, 2021 AND 2020
(Dollars in Thousands)

The management discussion and analysis of the Infrastructure Revolving Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2022, 2021 and 2020. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Infrastructure Revolving Loan Fund was established by North Dakota Century Code Section 6-09-49 for the purpose of providing loans to political subdivisions for essential infrastructure projects. Eligible infrastructure projects may include new or replacement of existing water treatment plants, wastewater treatment plants, sewer lines and water lines, and storm water and transportation infrastructure, including curb and gutter construction.

There were twelve loans originated for \$39,445 with \$7,941 funds advanced on these loans during the year ended June 30, 2022. There were twelve loans originated for \$17,271 with \$7,079 funds advanced on these loans during the year ended June 30, 2021. There were ten loans originated for \$17,178 with \$8,829 funds advanced on these loans during the year ended June 30, 2020. As of June 30, 2022, there were seventy-two loans outstanding for \$110,405 with an allowance for credit losses of \$1,380, for net loans of \$109,025.

There were nine loan commitments for \$40,342 as of June 30, 2022.

Funds available for investment in loans as of June 30, 2022 were \$20,804.

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 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 net position identifies the operating performance of the Fund for the fiscal year. 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.

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022, 2021 AND 2020
(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2022, 2021 AND 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>
ASSETS			
Cash and cash equivalents	\$ 20,804	\$ 24,772	\$ 27,453
Loans, net	109,025	101,369	97,144
Interest receivable	777	750	751
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 130,606</u>	<u>\$ 126,891</u>	<u>\$ 125,348</u>
LIABILITIES	<u>\$ 138</u>	<u>\$ 128</u>	<u>\$ 118</u>
NET POSITION - UNRESTRICTED	<u>130,468</u>	<u>126,763</u>	<u>125,230</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 130,606</u>	<u>\$ 126,891</u>	<u>\$ 125,348</u>

Loans

There were twelve loans made during the fiscal year 2022, twelve loans made during the fiscal year 2021, and ten loans made during the fiscal year 2020. As of June 30, 2022, there are seventy-two loans outstanding totaling \$110,405 with an allowance for credit losses of \$1,380 for net loans of \$109,025.

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, 2022, 2021 and 2020 was \$130,468, \$126,763, and \$125,230, respectively.

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022, 2021 AND 2020
(Dollars in Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022, 2021 AND 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>
OPERATING REVENUES	\$ 2,196	\$ 2,094	\$ 1,857
OPERATING EXPENSES	<u>648</u>	<u>583</u>	<u>628</u>
OPERATING INCOME	1,548	1,511	1,229
NONOPERATING REVENUES			
Investment income	<u>13</u>	<u>22</u>	<u>66</u>
INCOME BEFORE TRANSFERS	1,561	1,533	1,295
TRANSFERS			
Transfers from Bank of North Dakota	-	-	8,000
Transfers from Strategic Investment and Improvements Fund	-	-	25,138
Transfers from Legacy Bond Fund	<u>2,144</u>	<u>-</u>	<u>-</u>
NET TRANSFERS	<u>2,144</u>	<u>-</u>	<u>33,138</u>
CHANGE IN NET POSITION	3,705	1,533	34,433
TOTAL NET POSITION, BEGINNING OF YEAR	<u>126,763</u>	<u>125,230</u>	<u>90,797</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 130,468</u>	<u>\$ 126,763</u>	<u>\$ 125,230</u>

Revenue

Operating revenue is from interest accrued on loans outstanding. A loan made from the Fund must have an interest rate that does not exceed two percent.

Expenses

The provision for credit loss was \$95 for the year ended June 30, 2022, \$55 for the year ended June 30, 2021, and \$160 for the year ended June 30, 2020. The provision in 2022, 2021 and 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 years ended June 30, 2022, 2021 and 2020 administration fees totaling \$547, \$522, and \$462 have been charged, respectively.

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022, 2021 AND 2020
(Dollars in Thousands)

Nonoperating Revenue

Nonoperating revenue represents interest earned on cash and cash equivalents.

Transfers

For the year ended June 30, 2022, the Fund received \$2,144 in transfers from Legacy Bond Fund. For the year ended June 30, 2021, the Fund did not receive any transfers. For year ended June 30, 2020, the Fund received \$8,000 in transfers from Bank of North Dakota and \$25,138 in transfers from Strategic Investment and Improvements Fund.

ECONOMIC FACTORS AND FUTURE OUTLOOK

There were nine outstanding commitments to extend credit for \$40,342. The term of the construction and permanent financing period may not exceed 30 years. Loans made by the Fund may not exceed fifteen million dollars and must have an interest rate that does not exceed two percent. House Bill 1443 of the 2015 Legislative Session authorized the Bank of North Dakota to transfer up to \$100,000, or so much of the sum as may be necessary. As of June 30, 2022, the Fund has up to \$52,000 available for transfer.

House Bill 1014 of the 2019 Legislative Session authorized the Office of Management and Budget to transfer up to \$40,000 during the biennium beginning July 1, 2019, and ending June 30, 2021 from the Strategic Investment and Improvements Fund contingent of any oil and gas tax revenues exceeding \$755,000 during the period August 1, 2017, through July 31, 2019. In August of 2019, the Strategic Investment and Improvements Fund transferred \$25,138 into the Fund.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. Effective July 1, 2021 all notes made must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent. As of June 30, 2022, the Fund has up to \$47,856 available for transfer.

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.

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021
(Dollars in Thousands)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 20,804	\$ 24,772
Loans, current portion	5,992	6,160
Interest receivable	777	750
	<u>27,573</u>	<u>31,682</u>
Total current assets		
Noncurrent Assets		
Loans, net of allowance for credit losses of \$1,380 in 2022 and \$1,285 in 2021	<u>103,033</u>	<u>95,209</u>
Total assets	<u>\$ 130,606</u>	<u>\$ 126,891</u>
LIABILITIES		
Current Liabilities	<u>\$ 138</u>	<u>\$ 128</u>
NET POSITION		
Unrestricted	<u>130,468</u>	<u>126,763</u>
Total liabilities and net position	<u>\$ 130,606</u>	<u>\$ 126,891</u>

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 2,196</u>	<u>\$ 2,094</u>
OPERATING EXPENSES		
Administrative fees	547	522
Other expenses	6	6
Provision for credit loss	<u>95</u>	<u>55</u>
Total Operating Expenses	<u>648</u>	<u>583</u>
OPERATING INCOME	1,548	1,511
NONOPERATING REVENUES		
Investment income	<u>13</u>	<u>22</u>
INCOME BEFORE TRANSFERS	1,561	1,533
TRANSFERS IN		
Transfers from Bank of North Dakota	-	-
Transfers from Strategic Investment and Improvements Fund		
Transfers from Legacy Bond Fund	<u>2,144</u>	<u>-</u>
NET TRANSFERS IN	<u>2,144</u>	<u>-</u>
CHANGE IN NET POSITION	3,705	1,533
TOTAL NET POSITION, BEGINNING OF YEAR	<u>126,763</u>	<u>125,230</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 130,468</u></u>	<u><u>\$ 126,763</u></u>

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Payment of administrative fees to Bank of North Dakota	\$ (537)	\$ (512)
Payment of other expenses	<u>(6)</u>	<u>(6)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(543)</u>	<u>(518)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Legacy Bond Fund	<u>2,144</u>	<u>-</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>2,144</u>	<u>-</u>
INVESTING ACTIVITIES		
Investment income received	13	22
Loan interest received	2,169	2,095
Loans advanced	(14,584)	(15,655)
Proceeds from principal collections on loans	<u>6,833</u>	<u>11,375</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(5,569)</u>	<u>(2,163)</u>
NET CHANGE IN CASH	(3,968)	(2,681)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,772</u>	<u>27,453</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 20,804</u>	<u>\$ 24,772</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 1,548	\$ 1,511
Adjustments to reconcile operating income to net cash used for operating activities		
Adjustment for provision for credit loss	95	55
Increase in due to Bank of North Dakota	10	10
Reclassification of items to other activities		
Interest income on loans	<u>(2,196)</u>	<u>(2,094)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (543)</u>	<u>\$ (518)</u>

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09-49 of the North Dakota Century Code (NDCC) established the Infrastructure Revolving Loan Fund (the Fund), effective July 1, 2015. The purpose of the Fund is to provide loans to political subdivisions for essential infrastructure projects. Eligible infrastructure projects may include new or replacement of existing water treatment plants, wastewater treatment plants, sewer lines and water lines, storm water and transportation infrastructure, including curb and gutter construction, and other infrastructure needs as established by the Bank of North Dakota. The Bank administers the Fund and all loans made by the Fund.

House Bill 1443 of the 2015 Legislative Session authorized a transfer of \$50,000 from the Strategic Investment and Improvements Fund (SIIF) to the Fund. It also authorized the Bank of North Dakota to transfer the sum of \$100,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the Fund. 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 disbursement. As of June 30, 2022, the fund has up to \$52,000 available for transfer.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2022, the fund has up to \$47,856 available for transfer.

Loans made by the Fund may not exceed fifteen million dollars, must have an interest rate that does not exceed two percent, and must have a repayment schedule that does not exceed thirty years. Effective July 1, 2021, loans made by the Fund must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent as enacted by House Bill 1431 of the 2021 Legislative Session.

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.

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

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 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.

Significant Group Concentrations of Credit Risk

All of the Fund's business is with political subdivisions 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 not to exceed two percent on the unpaid principal balance. Effective July 1, 2021, loans made by the Fund must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent as enacted by House Bill 1431 of the 2021 Legislative Session.

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 Credit Losses

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

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

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

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 AND INVESTMENTS

Deposits

The value and bank balance of the Fund’s cash deposits at June 30, 2022 and 2021 was \$20,804, and \$24,772, 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 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:

	<u>2022</u>	<u>2021</u>
Loans, current portion	\$ 5,992	\$ 6,160
Loans, noncurrent portion	<u>104,413</u>	<u>96,494</u>
Total loans	110,405	102,654
Allowance for credit losses	<u>1,380</u>	<u>1,285</u>
Total loans, net	<u>\$ 109,025</u>	<u>\$ 101,369</u>

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

Changes in the balances of loans are as follows:

Balance, June 30, 2020	\$ 98,374
Loan advances	15,655
Principal collections	<u>(11,375)</u>
Balance, June 30, 2021	102,654
Loan advances	14,584
Principal collections	<u>(6,833)</u>
Balance, June 30, 2022	<u><u>\$ 110,405</u></u>

Changes in allowance for credit losses are as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 1,285	\$ 1,230
Provision for credit losses	<u>95</u>	<u>55</u>
Balance, end of year	<u><u>\$ 1,380</u></u>	<u><u>\$ 1,285</u></u>

NOTE 4 - RELATED PARTY TRANSACTIONS

House Bill 1443 of the 2015 Legislative Session created the Fund and authorized a transfer from the Strategic Investment and Improvements Fund of \$50,000 as well as a transfer of up to \$100,000, or so much of the sum as may be necessary from the Bank of North Dakota. As of June 30, 2022, the Bank of North Dakota has transferred \$48,000 to the Fund.

House Bill 1014 of the 2019 Legislative Session authorized the Office of Management and Budget to transfer up to \$40,000 during the biennium beginning July 1, 2019, and ending June 30, 2021 from the Strategic Investment and Improvements Fund contingent of any oil and gas tax revenues exceeding \$755,000 during the period August 1, 2017, through July 31, 2019. As of June 30, 2022, the Strategic Investment and Improvements Fund has transferred \$25,138 into the Fund.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. Effective July 1, 2021 all notes made must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent. As of June 30, 2022, the Fund has up to \$47,856 available for transfer.

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021
(Dollars in Thousands)

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 \$547 and \$522 for administration fees during the year ended June 30, 2022 and 2021, respectively, of which the Fund owed the Bank \$138 as of June 30, 2022 and \$128 as of June 30, 2021.

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments 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 credit 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 nine outstanding commitments for \$40,342 to extend credit as of June 30, 2022.

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 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
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 Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 27, 2022.

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 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 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*.

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
September 27, 2022



**Infrastructure Revolving Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2022**

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 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
September 27, 2022



September 27, 2022

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

We have audited the financial statements of Infrastructure Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2022, and have issued our report thereon dated September 27, 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 Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated July 26, 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 comments regarding a significant control deficiency 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 September 27, 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 Internal Control – Management override of internal controls is considered to be a presumed audit risk.
- Valuation of allowance for loan losses – the allowance for loan losses is considered to be a significant estimate.

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 2022. 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 loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio equality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan 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 relates to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. 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 uncorrected or corrected 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 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 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, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 27, 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 conditions affecting the entity, and operating 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.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the text "Bismarck, North Dakota".

Bismarck, North Dakota