



Financial Statements  
June 30, 2022 and 2021

# Rebuilders Permanent Loan Fund

## REBUILDERS PERMANENT LOAN FUND

### Table of Contents

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	<u>Exhibits</u>	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b>		1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>		4
<b>FINANCIAL STATEMENTS</b>		
Statements of Net Position		9
Statements of Revenues, Expenses and Changes in Net Position		10
Statements of Cash Flows		11
Notes to Financial Statements		12
<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	18
Independent Auditor’s Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	20
Independent Auditor’s Communication to the Governor of North Dakota and the Legislative Assembly	B-1	23



## 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 Rebuilders Permanent 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 respective financial position of the Fund, as of June 30, 2022 and 2021, and the respective changes in its financial position, and 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*, 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 accordance 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 8 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 October 17, 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.

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

Bismarck, North Dakota  
October 17, 2022

# **REBUILDERS PERMANENT LOAN FUND**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2022, 2021, AND 2020**

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

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

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

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

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

The North Dakota Legislature amended the Fund in its 2021 Session to create the Rebuilders Permanent Loan Fund. This Fund merged the SARS-CoV-2 Small Employer Loan Fund with the Rebuilders Loan Fund. All assets and liabilities of the Small Employer Loan Fund were transferred to the Fund as of July 1, 2021.

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

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

## **REBUILDERS PERMANENT LOAN FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2022, 2021, AND 2020**

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There were no loans were made by the Fund in the fiscal year 2022. There were three new loans made by the Fund for \$180,000 during the fiscal year 2021. There were four new loans made by the Fund for \$300,000 during the fiscal year 2020. There were no loans pending as of June 30, 2022.

There are currently 1,837 loans outstanding. As of June 30, 2022, the gross amount of outstanding loans is \$41,386,945 with an allowance for credit losses of \$3,662,000 for net loans of \$37,724,945. This includes \$28,014,714 of loans transferred from Small Employer Loan Fund. As of June 30, 2021, the gross amount of outstanding loans is \$20,989,729 with an allowance for credit losses of \$2,099,000 for net loans of \$18,890,729. As of June 30, 2020, the gross amount of outstanding loans is \$23,860,298 with an allowance for credit losses of \$2,386,000 for net loans of \$21,474,298.

#### **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 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.

# REBUILDERS PERMANENT LOAN FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022, 2021, AND 2020

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

	(In Thousands)		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
ASSETS			
CURRENT ASSETS			
Cash deposits	\$ 6,555	\$ 443	\$ 334
Loans, current portion	4,425	1,707	1,721
Interest receivable	37	33	29
Total current assets	<u>11,017</u>	<u>2,183</u>	<u>2,084</u>
NONCURRENT ASSETS			
Loans, noncurrent portion, net	<u>33,301</u>	<u>17,183</u>	<u>19,753</u>
Total noncurrent assets	<u>33,301</u>	<u>17,183</u>	<u>19,753</u>
Total assets	<u>\$ 44,318</u>	<u>\$ 19,366</u>	<u>\$ 21,837</u>
CURRENT LIABILITIES	\$ 526	\$ 1,720	\$ 1,747
NONCURRENT LIABILITIES	<u>15,651</u>	<u>17,509</u>	<u>19,917</u>
NET POSITION - UNRESTRICTED	<u>28,141</u>	<u>137</u>	<u>173</u>
Total liabilities and net position	<u>\$ 44,318</u>	<u>\$ 19,366</u>	<u>\$ 21,837</u>

#### *Cash Deposits*

Cash deposits increased \$6,112,770 from June 30, 2021 to June 30, 2022 primarily due to the transfer of \$1,807,992 from the Small Employer Loan Fund and additional payments received on loans transferred from Small Employer Loan Fund. Cash deposits increased \$108,796 from June 30, 2020 to June 30, 2021 primarily due to principal repayments from borrowers. Cash deposits decreased \$408,403 from June 30, 2019 to June 30, 2020 primarily due to principal repayments to the Bank of North Dakota.



# REBUILDERS PERMANENT LOAN FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022, 2021, AND 2020

### *Loans*

There were no loans made during the fiscal year 2022, with \$23,814,801 transferred from the Small Employer Loan Fund. There were three loans made during the fiscal year 2021 totaling \$180,000. There were four loans made during the fiscal year 2020 totaling \$300,000. There were 41 delinquent loans 90 days or more past due as of June 30, 2022. There were \$333,353 in loan charge-offs and recoveries of \$551 during 2022.

### *Noncurrent Liabilities*

Noncurrent liabilities decreased \$3.1 million from June 30, 2021 to June 30, 2022, decreased \$2.4 million from June 30, 2020 to June 30, 2021, decreased \$2.6 million from June 30, 2019 to June 30, 2020.

### *Net Position*

North Dakota Legislative action in 2013 required that loan repayments received by the Fund first be used to replenish the Bank's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. Net position increased in 2022 by \$28,004,008 primarily due to the transfer of fund balance from the Small Employer Loan Fund.

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

	(In Thousands)		
	2022	2021	2020
OPERATING REVENUES	\$ 441	\$ 227	\$ 251
OPERATING EXPENSES	(20)	(54)	132
OPERATING INCOME	461	281	119
NONOPERATING LOSS	(28)	(317)	(147)
TRANSFERS IN	27,571	-	-
CHANGE IN NET POSITION	28,004	(36)	(28)
TOTAL NET POSITION, BEGINNING OF YEAR	137	173	201
TOTAL NET POSITION END OF YEAR	\$ 28,141	\$ 137	\$ 173

### *Revenue*

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

## **REBUILDERS PERMANENT LOAN FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2022, 2021, AND 2020**

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#### *Expenses*

The provision for credit loss was (\$345,198), (\$288,411), and (\$131,334) for the years ended June 30, 2022, 2021, and 2020, respectively.

Service fee expenses of \$180,740, \$225,106, and 249,386 have been recorded during the years ended June 30, 2022, 2021, and 2020, respectively.

Administrative fee expenses of \$130,452 were recorded during the year ended June 30, 2022. No administrative fee expenses were recorded during the years ended June 30, 2021 and 2020, respectively.

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

#### *Non-Operating Income/(Loss)*

During 2022, 2021, and 2020, non-operating loss consisted primarily of loss relating to reinstatement of debt for the increase in the liability to the State of North Dakota General Fund.

#### **ECONOMIC FACTORS AND FUTURE OUTLOOK**

North Dakota Legislative action in 2013 required that loan repayments received by the Fund first be used to replenish the Bank of North Dakota's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. As of June 30, 2022, the Fund owed the Bank \$481,625 and owed the General Fund \$15,650,134.

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

Effective July 1, 2021, House Bill 1187 of the 2021 Legislative Session states the Bank shall transfer any outstanding loans and other moneys in the rebuilders home loan and rebuilder loan Funds to the rebuilders permanent loan fund. Principal and interest payments from the rebuilders and rebuilders home loans that are transferred to the rebuilders permanent loan fund must be used to replenish the Bank's undivided profits and to repay the state general fund pursuant to section 3 of chapter 83 of the 2013 Session Laws and subsection 5 of section 20 of chapter 14 of the 2019 Session Laws. House Bill 1187 also states loans made as part of the small employer loan fund established by the industrial commission to provide assistance during the SARS-CoV-2 pandemic shall be transferred to the rebuilders permanent loan fund established under this Act. As of July 1, 2021, all transfers have been completed.

#### **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.

# REBUILDERS PERMANENT LOAN FUND

## STATEMENTS OF NET POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	\$ 6,555,508	\$ 442,738
Loans, current portion	4,424,788	1,706,973
Interest receivable	37,264	33,499
Total current assets	<u>11,017,560</u>	<u>2,183,210</u>
<b>NONCURRENT ASSETS</b>		
Loans, net of allowance for credit losses of \$3,662,000 in 2022 and \$2,099,000 in 2021	<u>33,300,157</u>	<u>17,183,756</u>
Total noncurrent assets	<u>33,300,157</u>	<u>17,183,756</u>
Total assets	<u>\$ 44,317,717</u>	<u>\$ 19,366,966</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to the Bank of North Dakota	\$ 519,851	\$ 1,715,795
Service fee payable	6,513	3,785
Total current liabilities	<u>526,364</u>	<u>1,719,580</u>
<b>NONCURRENT LIABILITIES</b>		
Due to the Bank of North Dakota	-	1,890,691
Due to the State of North Dakota General Fund	<u>15,650,134</u>	<u>15,619,484</u>
Total noncurrent liabilities	<u>15,650,134</u>	<u>17,510,175</u>
Total liabilities	<u>16,176,498</u>	<u>19,229,755</u>
<b>NET POSITION - UNRESTRICTED</b>	<u>28,141,219</u>	<u>137,211</u>
Total liabilities and net position	<u>\$ 44,317,717</u>	<u>\$ 19,366,966</u>

# REBUILDERS PERMANENT LOAN FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 440,991</u>	<u>\$ 226,677</u>
OPERATING EXPENSES		
Administrative Fee	130,452	-
Loan Fee	1	-
Service fees	180,740	225,106
Other expenses	13,471	9,004
Provision for credit loss	<u>(345,198)</u>	<u>(288,411)</u>
TOTAL OPERATING EXPENSES	<u>(20,534)</u>	<u>(54,301)</u>
OPERATING INCOME	461,525	280,978
NONOPERATING REVENUES		
Investment Income	<u>3,048</u>	<u>281</u>
NONOPERATING EXPENSES		
Reinstatement of debt expense - State General Fund	<u>(30,650)</u>	<u>(316,792)</u>
NONOPERATING LOSS	<u>(27,602)</u>	<u>(316,511)</u>
TRANSFERS IN	27,570,085	-
CHANGE IN NET POSITION	28,004,008	(35,533)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>137,211</u>	<u>172,744</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 28,141,219</u></u>	<u><u>\$ 137,211</u></u>

# REBUILDERS PERMANENT LOAN FUND

## STATEMENTS OF CASH FLOWS

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Administrative fees paid to Bank of North Dakota	\$ (135,714)	\$ -
Loan servicing fees paid to Bank of North Dakota	(610)	-
Service fees paid to Bank of North Dakota	(90,368)	(122,404)
Service fees paid to other banks	(88,909)	(111,462)
Payment of other expenses	(13,471)	(13,651)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(329,072)</u>	<u>(247,517)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Small Employer Loan Fund	1,807,992	-
Payment on Due to the Bank of North Dakota	(3,116,039)	(2,738,249)
NET CASH USED FOR NON-CAPITAL FUNDING ACTIVITIES	<u>(1,308,047)</u>	<u>(2,738,249)</u>
INVESTING ACTIVITIES		
Investment income received	3,048	281
Loan interest received	462,145	222,301
Loan advances	(150)	(180,047)
Proceeds from principal collections on loans	7,284,846	3,052,027
NET CASH FROM INVESTING ACTIVITIES	<u>7,749,889</u>	<u>3,094,562</u>
NET CHANGE IN CASH	6,112,770	108,796
CASH, BEGINNING OF YEAR	442,738	333,942
CASH, END OF YEAR	<u>\$ 6,555,508</u>	<u>\$ 442,738</u>
RECONCILIATION OF OPERATING INCOME		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 461,525	\$ 280,978
Adjustments to reconcile operating income to net cash used for operating activities		
Adjustment for provision for credit loss	(345,198)	(288,411)
Change in administrative fee payable to BND	(5,261)	-
Change in loan servicing fees paid to BND	(610)	-
Change in service fee payable to outside lender	2,728	(5,700)
Change in service fee payable to BND	(1,265)	(7,707)
Reclassification of items to other activities		
Interest income on loans	(440,991)	(226,677)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (329,072)</u>	<u>\$ (247,517)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Reinstatement of debt expense - State General Fund	<u>\$ 30,650</u>	<u>\$ 316,792</u>
Transfers in of non-cash net assets from Small Employer Loan Fund	<u>\$ 26,196,016</u>	<u>\$ -</u>

See Notes to Financial Statements

**REBUILDERS PERMANENT LOAN FUND**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

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

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

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

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

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

The North Dakota Legislature amended the Fund in its 2021 Session to create the Rebuilders Permanent Loan Fund. This Fund merged the SARS-CoV-2 Small Employer Loan Fund with the Rebuilders Loan Fund. All assets and liabilities of the Small Employer Loan Fund were transferred to the Fund as of July 1, 2021.

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

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

**REBUILDERS PERMANENT LOAN FUND**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the 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, no organizations were determined to be part of the reporting entity. The Fund is included as part of the primary government in the State of North Dakota’s reporting entity.

*Accounting Standards and Adoptions of Accounting Policies*

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

*Fund Accounting*

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

*Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net position is segregated into (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses, and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital, and related financing activities, and investing activities.

*Use of Estimates*

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

*Significant Group Concentrations of Credit Risk*

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

**REBUILDERS PERMANENT LOAN FUND**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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

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

*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 loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

A loan is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

*Loan Origination Fees*

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

*Credit Related Financial Instruments*

In the ordinary course of business, the 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.



**REBUILDERS PERMANENT LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 2 - DEPOSITS**

The carrying value and bank balance of the Fund’s cash deposits as of June 30, 2022 and 2021 was \$6,555,508 and \$442,738, respectively. Cash deposits increased \$6,112,770 from June 30, 2021 to June 30, 2022 primarily due to the transfer of \$1,807,992 from the Small Employer Loan Fund and additional payments received on loans transferred from Small Employer Loan Fund. 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 - 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	\$ 4,424,788	\$ 1,706,973
Loans, noncurrent portion	<u>36,962,157</u>	<u>19,282,756</u>
Total loans	<b>41,386,945</b>	20,989,729
Allowance for credit losses	<u>(3,662,000)</u>	<u>(2,099,000)</u>
Total loans, net	<u><b>\$ 37,724,945</b></u>	<u><b>\$ 18,890,729</b></u>

Changes in the balances of loans are as follows:

Balance, June 30, 2020	\$ 23,860,298
Loan advances	180,047
Principal collections	(3,052,027)
Recoveries/(Charge-offs)	<u>1,411</u>
Balance, June 30, 2021	20,989,729
Loans transferred in	28,014,714
Loan advances	150
Principal collections	(7,284,846)
Recoveries/(Charge-offs)	<u>(332,802)</u>
Balance, June 30, 2022	<u><b>\$ 41,386,945</b></u>

(continued on next page)

**REBUILDERS PERMANENT LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 2,099,000	\$ 2,386,000
Allowance for Credit Losses Transferred in	2,241,000	-
Provision for credit losses	(345,198)	(288,411)
Charge-offs	(333,353)	-
Recoveries	551	1,411
	<u>551</u>	<u>1,411</u>
Balance, end of year	<u>\$ 3,662,000</u>	<u>\$ 2,099,000</u>

There were no impaired loans as of June 30, 2022 and 2021. There were three loans on nonaccrual status as of June 30, 2022 and June 30, 2021. There were 56 loans 90 days or more past due as of June 30, 2022 and 46 loans 90 days or more past due as of June 30, 2021.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

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

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

During 2013, the North Dakota Legislature revised the Fund to require that after June 30, 2013, loan repayments received by the Fund shall be transferred back to the Bank to replenish \$30,000,000 of the Bank's undivided profits. As such, the Fund owed the Bank \$481,625 and \$3,597,664 as of June 30, 2022 and 2021, respectively. In addition, the legislation required that after the Bank's undivided profits are replenished, any repayments received by the Fund shall be transferred to the State Treasurer for deposit in the State General Fund after payment of Fund expenses. As such, the Fund also owed the General Fund \$15,650,134 and \$15,619,484 as of June 30, 2022 and 2021, respectively. During the years ended June 30, 2022 and 2021, the increase in the liability to the General Fund was reflected as reinstatement of debt expense in the amounts of \$30,650 and \$316,792, respectively.

The Bank charged the Fund for operating expenses totaling \$1,471 and \$454 for the years ended June 30, 2022 and 2021, respectively.

The Bank charged the Fund servicing fees totaling \$86,780 and \$117,306 for the years ended June 30, 2022 and 2021, respectively. The Fund owed the Bank \$7,390 and \$8,636 as of June 30, 2022, and 2021, respectively.

The Bank charged the Fund administrative fees totaling \$130,452 for the year ended June 30, 2022. The Fund owed the Bank \$30,669 as of June 30, 2022.

## **REBUILDERS PERMANENT LOAN FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**

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Effective July 1, 2021, House Bill 1187 of the 2021 Legislative Session states the Bank shall transfer any outstanding loans and other moneys in the rebuilders home loan and rebuilders loan Funds to the rebuilders permanent loan fund. Principal and interest payments from the rebuilders and rebuilders home loans that are transferred to the rebuilders permanent loan fund must be used to replenish the Bank's current earnings and undivided profits and to repay the state general fund pursuant to section 3 of chapter 83 of the 2013 Session Laws and subsection 5 of section 20 of chapter 14 of the 2019 Session Laws. House Bill 1187 also states loans made as part of the small employer loan fund established by the industrial commission to provide assistance during the SARS-CoV-2 pandemic shall be transferred to the rebuilders permanent loan Fund established under this Act. As of July 1, 2021, the Fund transferred in \$27,570,085 of net assets from the small employer loan fund.

#### **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 \$250,000 per person and \$1,000,000 per occurrence.

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

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rebuilders Permanent 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 October 17, 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 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 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.

**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*.

**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  
October 17, 2022



**Rebuilders Permanent 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 loan 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 loan 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  
October 17, 2022





October 17, 2022

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

We have audited the financial statements of Rebuilders Permanent Loan Fund (the Fund) as of and for the year ended June 30, 2022, and have issued our report thereon dated October 17, 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 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 October 17, 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 Fundis 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 credit losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for credit losses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

#### *Financial Statement Disclosures*

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

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

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

#### **Uncorrected and Corrected Misstatements**

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

#### **Disagreements with Management**

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

#### **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 that are included in the management representation letter dated October 17, 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, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund's auditors.

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

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

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 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.

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.



Bismarck, North Dakota