



Financial Statements
June 30, 2023 and 2022

Innovation Technology Loan Fund (LIFT)

INNOVATION TECHNOLOGY 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 Innovation Technology Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, 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 (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, 2023 and 2022, 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 21, 2023 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 21, 2023

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

The management discussion and analysis of the Innovation Technology Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023, 2022 and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Innovation Technology Loan Fund was established by North Dakota Century Code Section 6-09.18 for the purpose of providing financing for commercialization of intellectual property within the State of North Dakota. Industries eligible for loans include advanced computing and data management, agriculture technology, autonomous and unmanned vehicles and related technology, energy, health care, value-added agriculture, value-added energy, and any other industry or area identified by the committee that will contribute to the diversification of the state's economy.

There were ten new loans for \$7,099 with advances totaling \$4,894 made by the Fund during the year ended June 30, 2023. There were fifteen new loans for \$8,980 with advances totaling \$7,823 made by the Fund during the year ended June 30, 2022. There were ten new loans for \$6,590 with advances totaling \$8,092 made by the Fund during the year ended June 30, 2021. As of June 30, 2023, the gross amount of outstanding loans is \$22,600 with an allowance for loan losses of \$3,390 for net loans of \$19,210.

There were two pending loan commitments totaling \$2,500 as of June 30, 2023 compared to five pending loan commitments totaling \$4,249 as of June 30, 2022.

Funds available for investment in loans for the year ended June 30, 2023 were \$6,971.

REQUIRED FINANCIAL STATEMENTS:

The Fund is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows. The statement of net position provides readers the assets and liabilities of the Fund, with the differences between the two reported as net position. The statement of revenues, expenses, and changes in 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.

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 6,971	\$ 12,029	\$ 1,514
Loans, net of allowance for loan loss	19,210	16,821	12,714
Interest receivable	8	-	-
TOTAL ASSETS	<u>\$ 26,189</u>	<u>\$ 28,850</u>	<u>\$ 14,228</u>
LIABILITIES			
	<u>\$ 28</u>	<u>\$ 20</u>	<u>\$ 16</u>
NET POSITION - UNRESTRICTED	<u>26,161</u>	<u>28,830</u>	<u>14,212</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 26,189</u>	<u>\$ 28,850</u>	<u>\$ 14,228</u>

Loans

There were ten new loans for \$7,099 with advances totaling \$4,894 made during the year ended June 30, 2023. There were fifteen new loans for \$8,980 with advances totaling \$7,823 made during the year ended June 30, 2022. As of June 30, 2021, there were ten new loans for \$6,590 with advances totaling \$8,092. As of June 30, 2023, there are forty-one loans outstanding totaling \$22,600 with an allowance for loan losses of \$3,390 for net loans of \$19,210.

Liabilities

The only liability of the Fund is an administrative fee payable to the Bank.

Net Position

Net position of the Fund was \$26,161, \$28,830, and \$14,212 as of June 30 2023, 2022, and 2021, respectively.

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENSES	<u>2,711</u>	<u>391</u>	<u>498</u>
OPERATING LOSS	<u>(2,694)</u>	<u>(391)</u>	<u>(498)</u>
NONOPERATING REVENUES	<u>25</u>	<u>9</u>	<u>4</u>
LOSS BEFORE TRANSFERS	<u>(2,669)</u>	<u>(382)</u>	<u>(494)</u>
TRANSFERS IN	<u>-</u>	<u>15,000</u>	<u>5,000</u>
CHANGE IN NET POSITION	<u>(2,669)</u>	<u>14,618</u>	<u>4,506</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,830</u>	<u>14,212</u>	<u>9,706</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 26,161</u></u>	<u><u>\$ 28,830</u></u>	<u><u>\$ 14,212</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. The interest rate established for the Fund is zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

Expenses

Operating expenses consist primarily of provision for loan loss of \$2,505 for fiscal year 2023. For years ended June 30, 2022 and 2021, the provision for loan loss was \$216 and \$404. Other expenses include administration fees paid to the Bank of North Dakota and Department of Commerce, as well as an annual audit of the financial statements of the Fund. Administrative expenses for the years ended June 30, 2023, 2022, and 2021 were \$103, \$72, and \$52, respectively.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance and investments.

**INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)**

Transfers In

House Bill 1333 of the 2019 Legislative Session created the Fund and appropriated up to \$15,000 in transfers from the Bank of North Dakota, of which the bank had transferred \$5 million into the Fund as of June 30, 2021 and \$10 million into the Fund as of June 30, 2020.

House Bill 1141 of the 2021 Legislative Session created the Fund and appropriated up to \$15,000 in transfers from the Office of Management and Budget, of which they had transferred \$15 million into the Fund as of June 30, 2022.

ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2023, there were two pending loan commitments. House Bill 1018 of the 2023 Legislative Session authorized the Office of Management and Budget to transfer up to \$10,000 during the biennium beginning July 1, 2023, and ending June 30, 2025. During the year ended June 30, 2023, no funds have been transferred to the Fund.

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.

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,971	\$ 12,029
Loans, current portion	2,707	5,524
Interest receivable	8	-
Total current assets	<u>9,686</u>	<u>17,553</u>
Noncurrent Assets		
Loans, net of allowance for loan losses of \$3,390 in 2023 and \$885 in 2022	<u>16,503</u>	<u>11,297</u>
Total assets	<u>\$ 26,189</u>	<u>\$ 28,850</u>
LIABILITIES		
Current Liabilities	<u>\$ 28</u>	<u>\$ 20</u>
NET POSITION		
Unrestricted	<u>26,161</u>	<u>28,830</u>
Total liabilities and net position	<u>\$ 26,189</u>	<u>\$ 28,850</u>

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND POSITION
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES	<u>\$ 17</u>	<u>\$ -</u>
OPERATING EXPENSES		
Administrative fees to Bank of North Dakota	103	72
Administrative fees to Department of Commerce	103	103
Provision for loan loss	<u>2,505</u>	<u>216</u>
OPERATING LOSS	(2,694)	(391)
NONOPERATING REVENUES		
Investment income	<u>25</u>	<u>9</u>
NONOPERATING INCOME	<u>25</u>	<u>9</u>
LOSS BEFORE TRANSFERS	(2,669)	(382)
TRANSFERS		
Transfers from Office of Management and Budget	<u>-</u>	<u>15,000</u>
CHANGE IN NET POSITION	(2,669)	14,618
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,830</u>	<u>14,212</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 26,161</u>	<u>\$ 28,830</u>

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of operating expenses	\$ (103)	\$ (171)
Payment of administrative fees to Bank of North Dakota	<u>(95)</u>	<u>-</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(198)</u>	<u>(171)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Office of Management and Budget	<u>-</u>	<u>15,000</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>15,000</u>
INVESTING ACTIVITIES		
Investment income received	25	9
Loan interest received	9	-
Proceeds from principal collections on loans	-	3,500
Loans advanced	<u>(4,894)</u>	<u>(7,823)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(4,860)</u>	<u>(4,314)</u>
NET CHANGE IN CASH	(5,058)	10,515
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,029</u>	<u>1,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 6,971</u></u>	<u><u>\$ 12,029</u></u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (2,694)	\$ (391)
Adjustments to reconcile operating loss		
to net cash used for operating activities		
Adjustment for provision for loan loss	2,505	216
Increase in due to Bank of North Dakota	8	4
Reclassification of items to other activities		
Interest income on loans	<u>(17)</u>	<u>-</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (198)</u></u>	<u><u>\$ (171)</u></u>

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Innovation Technology Loan Fund was established by North Dakota Century Code (NDCC) Section 6-09.18 for the purpose of providing financing for commercialization of intellectual property within the State of North Dakota. Industries eligible for loans include advanced computing and data management, agriculture technology, autonomous and unmanned vehicles and related technology, energy, health care, value-added agriculture, value-added energy, and any other industry or area identified by the committee that will contribute to the diversification of the state's economy. The Fund was established with a fifteen million dollar appropriation from the Bank of North Dakota.

Loans made by the Fund must have an interest rate of zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

Reporting Entity

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

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into net investment in capital assets, restricted, and unrestricted components. The statement of revenues, expenses and changes in 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.

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

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 loan 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.

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. Loans made by the Fund must have an interest rate of zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

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

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 2 - DEPOSITS

Deposits

The carrying value and bank balance of the Fund's cash deposits at June 30, 2023 and 2022 were \$6,971 and \$12,029, 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 the Fund's loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans are as follows:

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 2,707	\$ 5,524
Loans, noncurrent portion	19,893	12,182
Total loans	22,600	17,706
Allowance for loan losses	3,390	885
Total loans, net	<u>\$ 19,210</u>	<u>\$ 16,821</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 13,383
Loan advances	7,823
Principal collections	(3,500)
Balance, June 30, 2022	17,706
Loan advances	4,894
Principal collections	-
Balance, June 30, 2023	<u>\$ 22,600</u>

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for loan losses are as follows:

Balance, beginning of year	\$	885	\$	669
Provision for loan losses		<u>2,505</u>		<u>216</u>
Balance, end of year	<u>\$</u>	<u>3,390</u>	<u>\$</u>	<u>885</u>

There were two impaired loans as of June 30, 2023. There was one loan on nonaccrual status and no loans 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash and time deposits 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 Fund \$103 for administrative fees during the year ended June 30, 2023, of which the Fund owed the Bank \$28 as of June 30, 2023. The Bank charged the Fund \$72 for administrative fees during the year ended June 30, 2022, of which the Fund owed the Bank \$20 as of June 30, 2022.

House Bill 1018 of the 2023 Legislative Session authorized the Office of Management and Budget to transfer up to \$10,000 during the biennium beginning July 1, 2023, and ending June 30, 2025 from the Strategic Investment and Improvements Fund. During the year ended June 30, 2023, no funds have been transferred into the Fund.

House Bill 1141 of the 2021 Legislative Session authorized the Office of Management and Budget to transfer up to \$15,000 during the biennium beginning July 1, 2021, and ending June 30, 2023 from the Strategic Investment and Improvements Fund. During the year ended June 30, 2022, \$15 million had been transferred into the Fund.

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 loan loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were two pending loan commitments for \$2,500 as of June 30, 2023.

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.

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

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 Innovation Technology Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, 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 21, 2023.

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

Bismarck, North Dakota
September 21, 2023



**Innovation Technology Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

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
September 21, 2023



September 21, 2023

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

We have audited the financial statements of Innovation Technology Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 21, 2023. 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 June 29, 2023 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 21, 2023.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. 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 quality, 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 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. 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 Funds'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, 2023 and 2022, 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 21, 2023.

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.

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

Bismarck, North Dakota