



Financial Statements
June 30, 2023 and 2022

North Dakota Development Fund, Inc.

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Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of North Dakota Development Fund, Inc., a component unit 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 North Dakota Development Fund, Inc.'s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the North Dakota Development Fund, Inc., as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 (*Government Auditing Standards*). 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 North Dakota Development Fund, Inc. 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 opinions.

Restatement of Prior Year Financial Statements

The financial statements of the business-type activities and the aggregate remaining fund information of North Dakota Development Fund, Inc. as of and for the year ended June 30, 2022, were audited by other auditors, whose report dated November 14, 2022, contained an unmodified opinion on the business-type activities and an adverse opinion on the custodial fund financial statements.

As discussed in Note 10 to the financial statements, the financial statements of the business-type activities have been restated to correct an error in the reporting of cash equivalents for certificates of deposit that did not meet the definition of a cash equivalent. Additionally, the aggregate remaining fund information has been restated to include previously excluded custodial activities. Our opinions are not modified with respect to this matter.

As part of our audit of the 2023 financial statements of the business-type activities and aggregate remaining fund information of North Dakota Development Fund, Inc., we also audited the adjustments described in Note 10 that were applied to restate the 2022 financial statements of the business-type activities and the aggregate remaining fund information. We were not engaged to audit, review, or apply any procedures to the 2022 financial statements of the business-type activities and aggregate remaining fund information of North Dakota Development Fund, Inc. other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements as a whole.

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the North Dakota Development Fund, Inc.. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 North Dakota Development Fund, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North Dakota Development Fund, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Development Fund, Inc.'s basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combined financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2023 on our consideration of the North Dakota Development Fund, Inc.'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 North Dakota Development Fund, Inc.'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 North Dakota Development Fund, Inc.'s internal control over financial reporting and compliance.

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

Bismarck, North Dakota
December 5, 2023

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the years ended June 30, 2023 and 2022. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue decreased by \$370,144 (21.18%) to \$1,377,168. Operating revenues decreased by \$401,415 (23.23%) to \$1,326,519. Cash flow increased by \$2,195,974 (13.57%) to \$18,374,799. The Fund collected \$6,426,308 in principal payments in 2023, which was a decrease of \$760,135 (10.58%) from 2022. The decrease in total and operating revenue is attributable to a decrease in dividend/interest income received from investments/loans and a decrease in other income. The decrease in loan interest income is due to a decrease in principal amounts on loans in the portfolio. The decrease in other income is attributable to less late fees and origination loan fees collected. The decrease in the total principal funds collected was, in part, attributable to the Fund receiving a lower payout of loans compared to 2022 and an increased proportion of the portfolio invested in company equity.

The Fund received \$125,000 in dividend payments in 2023 from equity investments made, compared to \$120,000 in dividend payments received in 2022.

General and Administrative expense increased by \$100,883 (20.40%) from \$494,553 in 2022 to \$595,436 in 2023. The increase was attributable to the addition of two part-time interns, salary increases for current staff, and an increase in general operating expenses.

Operating Income (loss) before non-operating revenues and expenses increased by \$3,157,550 from (\$2,874,616) in 2022 to \$282,934 in 2023. The increase in the operating income (loss) in 2023 was attributable to a lower amount of provision for allowance for losses.

Interest income on deposits increased by \$31,271 (161.37%) from \$19,378 received in 2022 to \$50,649 received in 2023. The increase was the result of larger balances carried at the Bank of North Dakota and investments in certificates of deposit.

Net position increased by \$8,664,308 from \$27,909,828 at the end of year 2022 to \$36,574,136 at the end of year 2023. The change in net position increased by \$11,410,838 from (\$2,746,530) in 2022 to \$8,664,308 in 2023. The increase was attributable to a decrease in provision for allowance for losses of \$3,661,208 and \$8,330,725 in transfers into the Fund. These transfers comprised \$5,000,000 in American Rescue Plan Funds (ARPA) for a grant program and \$3,330,466 from the federal State Small Business Credit Initiative (SSBCI) program.

Noncurrent net assets (excluding equipment) increased by \$3,379,178 from \$10,250,480 in 2022 to \$13,629,658 in 2023. The noncurrent assets consist of the Fund's loan and equity investments and certificates of deposit (2022 only). The loan investments decreased by \$2,259,730 from \$32,439,938 in 2022 to \$30,180,208 in 2023. Equity investments increased by \$6,576,201 to \$7,376,201 in 2023 from \$800,000 in 2022. This substantial increase is attributed to the conversion of convertible debt to equity, the reclassification of loans to equity, and the addition of the SSBCI program, specifically designed for equity and convertible debt investments.

The loan investments made decreased by \$2,259,730 from \$32,439,938 in 2022 to \$30,180,208 in 2023. Loan charge-offs increased by \$2,574,660 from \$34,793 in 2022 to \$2,609,453 in 2023.

Interest receivable on loans decreased by \$524 to \$190,894 in 2023.

Current portion of loans receivable increased from \$1,163,848 in 2022 to \$2,303,128 in 2023. The increase is attributable to a higher value of loans maturing in fiscal year 2024.

Cash and cash equivalents increased by \$2,195,974 (13.57%) to \$18,374,799 (cash balance is before loan and investment unfunded commitments). The increase in Cash and cash equivalents was attributable to \$8,330,725 of transfers into the Fund.

The Fund does invest their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. The Fund has invested more funds in longer term certificates of deposit, which are at a higher rate of return earning more deposit interest and putting the funds to work in loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

13 projects were funded totaling \$5,695,500.

Required Financial Statements

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net position summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

**Condensed Statements of Net Position
June 30, 2023 and 2022, and 2021**

Assets	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 22,868,821	\$ 17,534,091	\$ 22,967,121
Capital assets, net	105,097	145,779	185,101
Noncurrent assets	<u>13,629,658</u>	<u>10,250,480</u>	<u>7,510,676</u>
Total noncurrent assets	<u>13,734,755</u>	<u>10,396,259</u>	<u>7,695,777</u>
Total assets	<u>\$ 36,603,576</u>	<u>\$ 27,930,350</u>	<u>\$ 30,662,898</u>
Liabilities and Net Position			
Current liabilities	<u>\$ 29,440</u>	<u>\$ 20,522</u>	<u>\$ 6,540</u>
Investment in capital assets	105,097	145,779	185,101
Restricted	12,808,615	12,447,491	12,117,875
Unrestricted	<u>23,660,424</u>	<u>15,316,558</u>	<u>18,353,382</u>
Total net position	<u>36,574,136</u>	<u>27,909,828</u>	<u>30,656,358</u>
Total liabilities and net position	<u>\$ 36,603,576</u>	<u>\$ 27,930,350</u>	<u>\$ 30,662,898</u>

Cash and Cash Equivalents and Certificates of Deposit

Cash and cash equivalents and certificates of deposit consist of deposits with the Bank of North Dakota and are included in the current and noncurrent assets section of the balance sheet. Additional discussion of cash and cash equivalents and certificates of deposit can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Note 3 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Note 4 to the financial statements.

**Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2023 and 2022, and 2021**

	2023	2022	2021
Operating Revenues	\$ 1,326,519	\$ 1,727,934	\$ 988,616
Nonoperating Revenue	8,381,374	128,086	45,330
Total Revenue	9,707,893	1,856,020	1,033,946
Operating Expenses			
General and administrative	595,436	494,553	329,084
Depreciation expense	40,682	39,322	18,311
Bad debt expense	407,467	4,068,675	1,107,211
	1,043,585	4,602,550	1,454,606
Change in Net Position	8,664,308	(2,746,530)	(420,660)
Net Position, Beginning of Year	27,909,828	30,656,358	31,077,018
Net Position, End of Year	\$ 36,574,136	\$ 27,909,828	\$ 30,656,358

Contacting the North Dakota Development Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

North Dakota Development Fund, Inc.

Statements of Net Position

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u> <u>(as Restated)</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,374,799	\$ 16,178,825
Certificates of deposit	2,000,000	-
Interest receivable on loans	190,894	191,418
Current portion of loans receivable	<u>2,303,128</u>	<u>1,163,848</u>
Total current assets	<u>22,868,821</u>	<u>17,534,091</u>
Noncurrent Assets		
Certificates of deposit	-	2,000,000
Loans receivable, net of current portion and allowance	13,354,658	8,000,480
Equity Investments, net	275,000	250,000
Equipment, net	<u>105,097</u>	<u>145,779</u>
Total noncurrent assets	<u>13,734,755</u>	<u>10,396,259</u>
Total assets	<u>\$ 36,603,576</u>	<u>\$ 27,930,350</u>
Liabilities and Net Position		
Current Liabilities		
Accrued expenses	<u>\$ 29,440</u>	<u>\$ 20,522</u>
Net Position		
Investment in capital assets	105,097	145,779
Restricted for		
Regional Rural Development	10,002,507	10,869,786
Child Care	620,942	605,329
Small Business Technology	975,356	972,376
State Small Business Credit Initiative	1,209,810	-
Unrestricted	<u>23,660,424</u>	<u>15,316,558</u>
Total net position	<u>36,574,136</u>	<u>27,909,828</u>
Total liabilities and net position	<u>\$ 36,603,576</u>	<u>\$ 27,930,350</u>

North Dakota Development Fund, Inc.
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenues		
Interest income on loans	\$ 1,119,081	\$ 1,267,160
Dividend income	125,000	120,000
Other	82,438	340,774
	1,326,519	1,727,934
Operating Expenses		
General and administrative	595,436	494,553
Depreciation expense	40,682	39,322
Provision for losses (change in allowance)	407,467	4,068,675
	1,043,585	4,602,550
Operating Income (Loss)	282,934	(2,874,616)
Nonoperating Revenue		
Interest income on deposits	50,649	19,378
State appropriations	8,330,725	108,708
Change in Net Position	8,664,308	(2,746,530)
Net Position, Beginning of Year	27,909,828	30,656,358
Net Position, End of Year	\$ 36,574,136	\$ 27,909,828

North Dakota Development Fund, Inc.

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022 (as Restated)
Operating Activities		
Interest and dividend income received	\$ 1,295,254	\$ 1,336,537
Other receipts	82,438	340,774
Payments to vendors	<u>(586,518)</u>	<u>(480,570)</u>
Net Cash from Operating Activities	<u>791,174</u>	<u>1,196,741</u>
Investing Activities		
Purchase of equity investments	(1,980,000)	-
Disbursements of business loans	(11,372,233)	(9,967,054)
Principal payments received on business loans	<u>6,426,308</u>	<u>7,186,443</u>
Net Cash used for Investing Activities	<u>(6,925,925)</u>	<u>(2,780,611)</u>
Non-Capital Financing Activity		
State appropriations	<u>8,330,725</u>	<u>108,708</u>
Net Change in Cash and Cash Equivalents	2,195,974	(1,475,162)
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>16,178,825</u>	<u>17,653,987</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,374,799</u>	<u>\$ 16,178,825</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities		
Operating income (loss)	\$ 282,934	\$ (2,874,616)
Adjustments to reconcile operating income (loss) to net cash used for operating activities		
Depreciation	40,682	39,322
Provision for loan losses	(4,181,986)	4,068,675
Provision for equity investment losses	1,980,000	-
Charge-offs	2,609,453	(34,793)
Reclassification of interest income on cash equivalents and certificates of deposit	50,649	19,378
Changes in assets and liabilities		
Accrued expenses	8,918	13,983
Interest receivable	<u>524</u>	<u>(35,208)</u>
Net Cash from Operating Activities	<u>\$ 791,174</u>	<u>\$ 1,196,741</u>
Supplemental Schedule of Non-cash Investing Activities		
Renewal of certificates of deposit	<u>\$ -</u>	<u>\$ 2,000,000</u>
Loans converted to equities	<u>\$ 4,596,201</u>	<u>\$ -</u>
Transfer of allowance for loans to allowance for equities	<u>\$ (4,571,201)</u>	<u>\$ -</u>

North Dakota Development Fund, Inc.
Statements of Fiduciary Net Position – Fiduciary Fund
June 30, 2023 and 2022

	Custodial Fund	
	2023	2022 (as Restated)
Assets		
Cash and Cash Equivalents	\$ 70,858	\$ 69,861
Net Position		
Restricted	\$ 70,858	\$ 69,861

North Dakota Development Fund, Inc.
 Statements of Changes in Fiduciary Net Position – Fiduciary Fund
 Years Ended June 30, 2023 and 2022

	Custodial Fund	
	2023	2022 (as Restated)
Additions		
Loan payments received on loans owned by the Bank of North Dakota	\$ 55,033	\$ 217,212
Deductions		
Loan payments remitted to Bank of North Dakota	54,036	316,439
Change in Net Position	997	(99,227)
Net Position, Beginning of Year, as Restated	69,861	169,088
Net Position, End of Year, as Restated	\$ 70,858	\$ 69,861

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child-care facilities in North Dakota.

Development Fund Venture Capital Loan Program

The Development Fund Venture Capital Loan Program is used to provide flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota.

State Small Business Credit Initiative (SSBCI)

The State Small Business Credit Initiative is used to provide support to small businesses and entrepreneurs by giving them access to capital needs to create job opportunities.

American Rescue Plan Act (ARPA)

The American Rescue Plan Act is used to provide support to small businesses and entrepreneurs by giving them access to capital needs to create job opportunities.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements, the Corporation should include all component units over which the Corporation 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 burdens on the Corporation. GASB further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund of the State of North Dakota.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

Custodial Fund – This fund accounts for assets held by the Corporation in a custodial capacity as an agent on behalf of others. The Corporation’s custodial fund is used to account for loan payment deposits on loans owned by the Bank of North Dakota that are serviced by the Corporation.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

Concentration of Credit Risk

Loans receivable and equity investments consist primarily of loans and equity investments to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit are recorded at cost.

Equity Investments

The Corporation records its equity investments at cost adjusted for impairment as determined by the Board of Directors. The impairment of equity investments is included in unrestricted net position. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 3).

Among the factors considered in determining whether an impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements 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 and valuation of equity investments.

Capital Assets and Depreciation

All capital assets are recorded in the accompanying financial statements at cost. Donated capital assets are stated at acquisition value at the time of donation. Equipment with a cost greater than \$5,000 is capitalized and reported in the accompanying financial statements. The Corporation's capital assets are being depreciated on a straight-line basis over estimated useful life of 5 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. 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. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

Restricted Resources

It is the North Dakota Development Fund, Inc.'s policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on change in net position or net position.

Note 2 - Deposits

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2023, the Corporation had the following:

	<u>Book Balance</u>	<u>Maturity Date</u>
Bank of North Dakota		
Cash and cash equivalents	\$ 18,374,799	N/A
Certificates of deposit	\$ 2,000,000	9/9/2023

Cash equivalents consist of money market deposit accounts.

As of June 30, 2022, the Corporation had the following:

	<u>Book Balance</u>	<u>Maturity Date</u>
Bank of North Dakota		
Cash and cash equivalents	\$ 16,178,825	N/A
Certificates of deposit	\$ 2,000,000	9/9/2023

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

Custodial and Concentration of Credit Risk

For deposits, the custodial credit risk is that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits are with the Bank of North Dakota.

Note 3 - Equity Investments

Equity investments in business concerns as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Development Fund	\$ 1,272,497	\$ 300,000
Regional Rural Development Revolving Loan Fund	877,850	-
Small Business Technology Fund	50,000	-
Development Fund Venture Capital	3,195,854	500,000
State Small Business Credit Initiative	<u>1,980,000</u>	<u>-</u>
	7,376,201	800,000
Allowance for impairment	<u>(7,101,201)</u>	<u>(550,000)</u>
	<u>\$ 275,000</u>	<u>\$ 250,000</u>

Among the factors considered in determining whether an impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Corporation has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

North Dakota Development Fund, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Changes in the valuation allowance for equity investments as of June 30, 2023 and 2022 are as follows:

	2023	2022
Balance, beginning of year	\$ 550,000	\$ 550,000
Provision for equity investment losses	1,980,000	-
Transfer of allowance for loans to allowance for equities	4,571,201	-
	<u>\$ 7,101,201</u>	<u>\$ 550,000</u>
Balance, end of year	<u>\$ 7,101,201</u>	<u>\$ 550,000</u>

Note 4 - Loans Receivable

Loans receivable at June 30, 2023 and 2022 are as follows:

	2023	2022
Development Fund	\$ 11,874,158	\$ 11,664,561
Regional Rural Development Revolving Loan Fund	8,446,995	5,312,284
Small Business Technology Fund	-	50,000
Child Care Program	1,808,005	1,721,807
State Small Business Credit Initiative	65,000	-
Development Fund Venture Capital	7,986,050	13,691,286
	<u>30,180,208</u>	<u>32,439,938</u>
Allowance for loan losses	(14,522,422)	(23,275,610)
	<u>15,657,786</u>	<u>9,164,328</u>
Loans receivable, net of allowance for loan losses	15,657,786	9,164,328
Less current portion of loans receivable	2,303,128	1,163,848
	<u>13,354,658</u>	<u>8,000,480</u>
Loans receivable, net of current portion	<u>\$ 13,354,658</u>	<u>\$ 8,000,480</u>

North Dakota Development Fund, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

Changes in the allowance for loan losses as of June 30, 2023 and 2022 are as follows:

	2023	2022
Balance, beginning of year	\$ 23,275,610	\$ 19,241,729
Provision for loan losses (reserve decrease)	(1,572,534)	4,068,674
Transfer of allowance for loans to allowance for equities	(4,571,201)	-
Write-offs	(2,609,453)	(34,793)
Balance, end of year	\$ 14,522,422	\$ 23,275,610

Note 5 - Equipment

A statement of changes in fixed assets for the years ended June 30, 2023 and 2022 is as follows:

	Balance 07/01/22	Additions	Deletions	Balance 06/30/23
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	(57,633)	(40,682)	-	(98,315)
	\$ 145,779	\$ (40,682)	\$ -	\$ 105,097
	Balance 07/01/21	Additions	Deletions	Balance 06/30/22
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	(18,311)	(39,322)	-	(57,633)
	\$ 185,101	\$ (39,322)	\$ -	\$ 145,779

Note 6 - Commitments and Contingencies

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2023 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$1,350,000.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2023 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$203,086.

Child Care Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2023 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$129,750.

Note 7 - Related Party Transactions

The financial statements of the North Dakota Development Fund, Inc. include loans receivable in entities partially owned by members of the Board of Directors. The financial statements include four and three related party loans receivable, respectively, as of June 30, 2023 and 2022. The related party loan receivables have a gross loan balance of \$3,830,000 and \$830,000, respectively, as of June 30, 2023 and 2022. The related party loan receivables have a reserve allowance of (\$2,330,000) and (\$830,000), respectively, as of June 30, 2023 and 2022.

Contracted salaries and benefits for North Dakota Department of Commerce employees incurred by the Corporation totaled \$388,752 and \$394,025, respectively, for the years ended June 30, 2023 and 2022.

See Note 9 for state appropriations.

Note 8 - Risk Management

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

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 participate 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 Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured during employment.

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 in any of the past three fiscal years.

Note 9 - State Appropriations

During the year ended June 30, 2023, the Corporation received a state appropriation of \$5,000,000 from the North Dakota General Fund of American Rescue Plan Act (ARPA) program funds. As of June 30, 2023, no ARPA funds had been expended. In addition, the Corporation received a state appropriation of \$3,330,466 from the North Dakota Department of Commerce for the State Small Business Credit Initiative program.

Note 10 - Restatements

In its previously issued financial statements, the Corporation did not include the financial information of the New Venture Capital Fund, a custodial fund, in its financial statements. Management included the financial information of the New Venture Capital Fund in its June 30, 2023 and 2022 financial statements presented herein. Management corrected the error by recording the following prior period adjustments to the aggregate remaining fund information:

	Custodial Fund
Net Position - July 1, 2021, as previously reported	\$ -
Restatement	
To include the financial information of the New Venture Capital Fund	<u>169,088</u>
Net Position - July 1, 2021, as restated	<u>\$ 169,088</u>
Net Position - June 30, 2022, as previously reported	\$ -
Restatements	
Loan payments received on loans owned by the Bank of North Dakota	217,212
Loan payments remitted to Bank of North Dakota	<u>(316,439)</u>
Net Position - June 30, 2022, as restated	<u>\$ 69,861</u>

In its previously issued financial statements, the Corporation reported certificates of deposit as cash equivalents that do not meet the definition of a cash equivalent. Management corrected the error by recording the following prior period adjustments to the business-type activities:

	<u>Business-Type Activities</u>
Cash and cash equivalents - June 30, 2022, as previously reported	\$ 18,178,825
Restatement	
Certificates of deposit that do not meet the definition of a cash equivalent	<u>(2,000,000)</u>
Cash and cash equivalents - June 30, 2022, as restated	<u>\$ 16,178,825</u>

Statements of Net Position

	<u>Business-Type Activities</u>
Certificates of deposit - June 30, 2022, as previously reported	\$ -
Restatement	
Certificates of deposit that do not meet the definition of a cash equivalent	<u>2,000,000</u>
Certificates of deposit - June 30, 2022, as restated	<u>\$ 2,000,000</u>

Note 11 - Subsequent Events

Subsequent to year-end, in accordance with the requirements of North Dakota House Bill No. 1018, the Corporation received a State of North Dakota appropriation of \$65 million from the Strategic Investment and Improvements Fund.

Subsequent to year-end, in accordance with the requirements of North Dakota Senate Bill No. 2015, the Corporation received a State of North Dakota appropriation of \$30 million from the Strategic Investment and Improvements Fund.



Supplementary Information
June 30, 2023 and 2022

North Dakota Development Fund, Inc.

North Dakota Development Fund, Inc.
Combining Statements of Net Position
June 30, 2023 and 2022

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2023	2022 (Memorandum only) (as Restated)
Assets									
Current Assets									
Cash and cash equivalents	\$ 4,118,277	\$ 3,510,504	\$ 508,216	\$ 975,356	\$ 3,037,960	\$ 1,209,810	\$ 5,014,676	\$ 18,374,799	\$ 16,178,825
Interest receivable on loans	5,507	3,145	1,465	-	180,777	-	-	190,894	191,418
Current portion of loans receivable	1,415,941	887,187	-	-	-	-	-	2,303,128	1,163,848
Total current assets	5,539,725	4,400,836	509,681	975,356	3,218,737	1,209,810	5,014,676	20,868,821	17,534,091
Noncurrent Assets									
Loans receivable, net of current portion and allowance	5,914,626	4,601,671	985,011	-	1,853,350	-	-	13,354,658	8,000,480
Certificate of Deposits	1,000,000	1,000,000	-	-	-	-	-	2,000,000	2,000,000
Intrafund balances	873,750	-	(873,750)	-	-	-	-	-	-
Equity investments, net	-	-	-	-	275,000	-	-	275,000	250,000
Equipment, net	105,097	-	-	-	-	-	-	105,097	145,779
Total noncurrent assets	7,893,473	5,601,671	111,261	-	2,128,350	-	-	15,734,755	10,396,259
Total assets	\$ 13,433,198	\$ 10,002,507	\$ 620,942	\$ 975,356	\$ 5,347,087	\$ 1,209,810	\$ 5,014,676	\$ 36,603,576	\$ 27,930,350
Liabilities and Net Position									
Current Liabilities									
Accrued expenses	\$ 29,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,440	\$ 20,522
Total liabilities	29,440	-	-	-	-	-	-	29,440	20,522
Net Position									
Investment in capital assets	105,097	-	-	-	-	-	-	105,097	145,779
Restricted	-	10,002,507	620,942	975,356	-	1,209,810	-	12,808,615	12,447,491
Unrestricted	13,298,661	-	-	-	5,347,087	-	5,014,676	23,660,424	15,316,558
Total net position	13,403,758	10,002,507	620,942	975,356	5,347,087	1,209,810	5,014,676	36,574,136	27,909,828
Total liabilities and net position	\$ 13,433,198	\$ 10,002,507	\$ 620,942	\$ 975,356	\$ 5,347,087	\$ 1,209,810	\$ 5,014,676	\$ 36,603,576	\$ 27,930,350

North Dakota Development Fund, Inc.
Combining Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2023	2022 (Memorandum only)
Operating Revenues									
Interest income on loans	\$ 440,489	\$ 248,114	\$ 34,657	\$ -	\$ 395,821	\$ -	\$ -	\$ 1,119,081	\$ 1,267,160
Dividend income	-	-	-	-	125,000	-	-	125,000	120,000
Other	57,666	5,475	4,546	-	13,931	820	-	82,438	340,774
	<u>498,155</u>	<u>253,589</u>	<u>39,203</u>	<u>-</u>	<u>534,752</u>	<u>820</u>	<u>-</u>	<u>1,326,519</u>	<u>1,727,934</u>
Operating Expenses									
General and administrative	512,948	-	-	-	-	82,488	-	595,436	494,553
Depreciation expense	40,682	-	-	-	-	-	-	40,682	39,322
Provision for losses (change in allowance)	(354,048)	1,119,082	22,259	-	(2,424,826)	2,045,000	-	407,467	4,068,675
	<u>199,582</u>	<u>1,119,082</u>	<u>22,259</u>	<u>-</u>	<u>(2,424,826)</u>	<u>2,127,488</u>	<u>-</u>	<u>1,043,585</u>	<u>4,602,550</u>
Operating Income (Loss)	<u>298,573</u>	<u>(865,493)</u>	<u>16,944</u>	<u>-</u>	<u>2,959,578</u>	<u>(2,126,668)</u>	<u>-</u>	<u>282,934</u>	<u>(2,874,616)</u>
Nonoperating Revenue (Expense)									
Interest income on deposits	10,105	10,035	1,081	2,980	5,760	6,012	14,676	50,649	19,378
State appropriations	-	-	-	-	-	3,330,725	5,000,000	8,330,725	108,708
Transfers	14,473	(11,821)	(2,412)	-	19	(259)	-	-	-
Change in Net Position	<u>323,151</u>	<u>(867,279)</u>	<u>15,613</u>	<u>2,980</u>	<u>2,965,357</u>	<u>1,209,810</u>	<u>5,014,676</u>	<u>8,664,308</u>	<u>(2,746,530)</u>
Net Position, Beginning of Year	<u>13,080,607</u>	<u>10,869,786</u>	<u>605,329</u>	<u>972,376</u>	<u>2,381,730</u>	<u>-</u>	<u>-</u>	<u>27,909,828</u>	<u>30,656,358</u>
Net Position, End of Year	<u>\$ 13,403,758</u>	<u>\$ 10,002,507</u>	<u>\$ 620,942</u>	<u>\$ 975,356</u>	<u>\$ 5,347,087</u>	<u>\$ 1,209,810</u>	<u>\$ 5,014,676</u>	<u>\$ 36,574,136</u>	<u>\$ 27,909,828</u>

North Dakota Development Fund, Inc.
Combining Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2023	2022 (Memorandum only) (as Restated)
Operating Activities									
Interest and dividend income received	\$ 476,709	\$ 361,931	\$ 39,321	\$ 2,980	\$ 393,625	\$ 6,012	\$ 14,676	\$ 1,295,254	\$ 1,336,537
Other receipts	57,666	5,475	4,546	-	13,931	820	-	82,438	340,774
Payments to vendors	(504,030)	-	-	-	-	(82,488)	-	(586,518)	(480,570)
Net Cash from (used for) Operating Activities	30,345	367,406	43,867	2,980	407,556	(75,656)	14,676	791,174	1,196,741
Non-Capital Financing Activities									
State appropriations	-	-	-	-	-	3,330,725	5,000,000	8,330,725	108,708
Transfers	14,473	(11,821)	(2,412)	-	19	(259)	-	-	-
Net Cash from (used for) Financing Activities	14,473	(11,821)	(2,412)	-	19	3,330,466	5,000,000	8,330,725	108,708
Investing Activities									
Purchase of equity investments	-	-	-	-	-	(1,980,000)	-	(1,980,000)	-
Disbursements of business loans	(4,657,580)	(4,724,457)	(532,696)	-	(1,392,500)	(65,000)	-	(11,372,233)	(9,967,054)
Principal received on business loans	2,193,034	536,895	446,498	-	3,249,881	-	-	6,426,308	7,186,443
Net Cash from (used for) Investing Activities	(2,464,546)	(4,187,562)	(86,198)	-	1,857,381	(2,045,000)	-	(6,925,925)	(2,780,611)
Net Change in Cash and Cash Equivalents	(2,419,728)	(3,831,977)	(44,743)	2,980	2,264,956	1,209,810	5,014,676	2,195,974	(1,475,162)
Cash and Cash Equivalents, Beginning of Year, as Restated	6,538,005	7,342,481	552,959	972,376	773,004	-	-	16,178,825	17,653,987
Cash and Cash Equivalents, End of Year	\$ 4,118,277	\$ 3,510,504	\$ 508,216	\$ 975,356	\$ 3,037,960	\$ 1,209,810	\$ 5,014,676	\$ 18,374,799	\$ 16,178,825

North Dakota Development Fund, Inc.
Combining Statements of Cash Flows
Years Ended June 30, 2023

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2023	2022 (Memorandum only) (as Restated)
Reconciliation of Operating									
Income (Loss) to Net Cash from									
(used for) Operating Activities									
Operating income (loss)	\$ 298,573	\$ (865,493)	\$ 16,944	\$ -	\$ 2,959,578	\$ (2,126,668)	\$ -	\$ 282,934	\$ (2,874,616)
Adjustments to reconcile									
operating (loss) income to net									
cash from (used for)									
operating activities									
Depreciation	40,682	-	-	-	-	-	-	40,682	39,322
Provision for loan losses	(1,636,501)	944,082	22,259	-	(3,576,826)	65,000	-	(4,181,986)	4,068,675
Charge-offs	1,282,453	175,000	-	-	1,152,000	-	-	2,609,453	(34,793)
Provision for equity									
investment losses	-	-	-	-	-	1,980,000	-	1,980,000	-
Reclassification of interest									
income on cash equivalents									
and certificates of deposit	10,105	10,034	1,081	2,980	5,761	6,012	14,676	50,649	19,378
Changes in Assets and Liabilities									
Accrued expenses	8,918	-	-	-	-	-	-	8,918	13,983
Interest receivable	26,115	103,783	3,583	-	(132,957)	-	-	524	(35,208)
Net Cash from (used for)									
Operating Activities									
	<u>\$ 30,345</u>	<u>\$ 367,406</u>	<u>\$ 43,867</u>	<u>\$ 2,980</u>	<u>\$ 407,556</u>	<u>\$ (75,656)</u>	<u>\$ 14,676</u>	<u>\$ 791,174</u>	<u>\$ 1,196,741</u>
Supplemental Schedule of									
Non-cash Investing Activities									
Renewal of certificates of									
deposit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>
Loans converted to equities	<u>\$ 972,497</u>	<u>\$ 877,850</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 2,695,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,596,201</u>	<u>\$ -</u>
Transfer of allowance for loans									
to allowance for equities	<u>\$ (972,497)</u>	<u>\$ (877,850)</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ (2,670,854)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,571,201)</u>	<u>\$ -</u>



Independent Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
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 regarding the June 30, 2023 audit of the North Dakota Development Fund, Inc. (the Corporation) are as follows:

Audit Report Communications:

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 functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes, with exception of findings 2023-001, 2023-002, 2023-003, and 2023-004 noted on the Schedule of Findings and Responses.

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

None identified.

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

Yes, with exception for findings 2023-001 and 2023-002 noted on the Schedule of Findings and Responses.

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

No.

Audit Committee Communication:

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

None.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates?

The most sensitive estimates affecting the financial statements include the allowance for uncollectible loans receivable and valuation allowance for equity investments.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Among the factors considered in determining whether an impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Our procedures included assessing the risk assigned by the North Dakota Development Fund, Inc. to the loans and equity investments, evaluation of the past history of these amounts, discussion with management, and review of recent information regarding the loans and investments to determine reasonableness of these estimates.

3. Identify any significant audit adjustments.

The following material audit adjustments were identified as a result of the audit procedures performed which was brought to the attention of, and corrected by, management:

	Debit	Credit
Business-Type Activities:		
Accumulated Depreciation	\$ 81,787	
Accrued Expenses	23,183	
Net Position, July 1, 2022	2,136,101	
Interest Receivable		\$ 2,165,455
Equipment		75,616
<i>To adjust for impact to beginning balances (prior year audit entry #1 and #9)</i>		
Net Position, July 1, 2022	465,585	
Reserve for Loan and Equity Investment Loss		465,585
<i>To adjust for impact to beginning balances (prior year audit entry #2)</i>		
Net Position, July 1, 2022	13,982	
Accrued Expenses		13,982
<i>To adjust for impact to beginning balances (prior year audit entry #3)</i>		
Net Position, July 1, 2022	76,525	
Accumulated Depreciation		39,322
Equipment		37,203
<i>To adjust for impact to beginning balances (prior year audit entry #4 and #5)</i>		
Interest Receivable	158,359	
Net Position, July 1, 2022		158,359
<i>To adjust for impact to beginning balances (prior year audit entry #7)</i>		
Cash and Cash Equivalents	5,014,676	
Transfers In		5,000,000
Interest Income		14,676
<i>To record transfer in of ARPA monies from the North Dakota General Fund</i>		
Depreciation Expense	40,682	
Accumulated Depreciation		40,682
<i>To record current year depreciation expense</i>		
Provision for Loan and Equity Investment Loss	1,663,048	
Reserve for Loan and Equity Investment Loss		1,663,048
<i>To adjust reserve for loan and equity investment loss to actual</i>		
Interest Income	615,078	
Interest Receivable		615,078
<i>To adjust interest receivable and interest income to actual</i>		
Aggregate Remaining Fund		
Net Position, July 1, 2022 - Custodial Fund	997	
Custodial Fund Expense	54,036	
Custodial Fund Revenue		55,033
<i>To record current year activity of the custodial fund</i>		

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

None.

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

The North Dakota Development Fund, Inc. experienced issues with providing requested information from their iCore accounting system. This did impact our ability to receive timely and accurate information to complete the audit.

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 to be addressed by auditors are directly related to the operations of an information technology system.

The Corporation uses SPARAK and iCore for its accounting and operations. We noted no internal control issues or exceptions related to the information system used by the Corporation.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, North Dakota Development Fund, Inc. Board of Directors and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.



Bismarck, North Dakota
December 5, 2023



**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
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
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 (*Government Auditing Standards*), the financial statements of the business-type activities and the aggregate remaining fund information of the North Dakota Development Fund, Inc., a component unit of the State of the North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise North Dakota Development Fund, Inc.’s basic financial statements, and have issued our report thereon dated December 5, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota Development Fund, Inc.’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Development Fund, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Development Fund, Inc.’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001, 2023-002, 2023-003, and 2023-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota Development Fund, Inc.'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*.

North Dakota Development Fund, Inc.'s Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on North Dakota Development Fund, Inc.'s responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. North Dakota Development Fund, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 entity'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.



Bismarck, North Dakota
December 5, 2023

2023-001 Preparation of Financial Statements
Material Weakness

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The North Dakota Development Fund, Inc. does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause: North Dakota Development Fund, Inc. does not have staff trained in reporting standards for the financial statements and notes to the financial statements.

Effect: Inadequate controls over financial reporting of the North Dakota Development Fund, Inc. result in the more than remote likelihood that the North Dakota Development Fund, Inc. would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: It is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the North Dakota Development Fund, Inc. and changes in reporting requirements.

Views of responsible officials: Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund, Inc.

**2023-002 Material Proposed Audit Adjustments including Restatements
Material Weakness**

Criteria: A good system of internal accounting control should provide for the proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Condition: We identified misstatements in North Dakota Development Fund, Inc.'s financial statements causing us to propose material audit adjustments including restatement audit adjustments. In addition, the journal entries proposed by the predecessor auditor were not posted by management of North Dakota Development Fund, Inc. which caused issues with rolling beginning balances and the financial statements did not balance intrafund.

Cause: The Organization does not have a document that details transactions outside of the typical day to day activities.

Effect: Misstatements in the financial statements could result from inadequate controls over recording of transactions and it affects the North Dakota Development Fund, Inc.'s ability to detect misstatements to the financial statements.

Recommendations: The organization should develop a document that details various transactions made by the organization and includes supporting documentation to enable staff the ability to easily understand how to properly account for those transactions.

Views of responsible officials: The organization accepts the recommendation of proposed audit adjustments. Management will review its internal processes to ensure transactions are properly accounted for and reflected in its financial statements.

**2023-003 Segregation of Duties
Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: North Dakota Development Fund, Inc. has a lack of segregation of duties in certain areas due to a limited staff. North Dakota Development Fund, Inc. does not have evidence supporting a formal approval process for charging off loans. There is no review or approval process over manual journal entries.

Cause: North Dakota Development Fund, Inc. has limited staff to be able to adequately segregate duties.

Effect: Inadequate segregation of duties could adversely affect the North Dakota Development Fund, Inc.'s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendations: All accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the North Dakota Development Fund, Inc.. We recommend management institute a level of oversight and approval of all accounting functions.

Views of responsible officials: At this time, North Dakota Development Fund, Inc. has segregated the duties of all accounting functions in the most efficient manner possible given its limited staff. The Board is involved and is being kept informed of the financial management of North Dakota Development Fund, Inc.

**2023-004 Loan Interest Income Accounting and Reconciliation
Material Weakness**

Criteria: Loans greater than 90 days past due should be placed on non-accrual which stops the recognition of interest income and increasing interest receivable. Loan interest receivable and interest income should be reconciled monthly from the loan system to the accounting system and reviewed and approved.

Condition: North Dakota Development Fund, Inc. is not utilizing their accounting system placing loans on non-accrual and not performing a reconciliation of interest income and interest receivable which resulted in material audit adjustments.

Cause: North Dakota Development Fund, Inc. does not have the training needed to utilize the accounting system appropriately for non-accrual loans or to reconcile interest income and interest receivable accurately.

Effect: Misstatements in the financial statements could result from inadequate controls over recording of transactions and it affects the North Dakota Development Fund, Inc.'s ability to detect misstatements to the financial statements.

Recommendations: The organization should obtain training and develop a document that details the accounting for non-accrual loans within the accounting system and reconciling loan interest income and interest receivable to enable staff the ability to easily understand how to properly account for those transactions.

Views of responsible officials: North Dakota Development Fund, Inc. plans to obtain training outside of the Organization on the accounting for non-accrual loans and guidance on the reconciliation process for loan interest income and interest receivable.