

Financial Statements
June 30, 2024 and 2023
North Dakota Building Authority
(A Component Unit of the State of North Dakota)

NORTH DAKOTA BUILDING AUTHORITY

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Independent Auditor's Report

The Industrial Commission
The Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Dakota Building Authority, a component unit of the State of North Dakota ("Authority") as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Building Authority, a component unit of the State of North Dakota as of June 30, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the North Dakota Building Authority Fund and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2024 and 2023, the changes in its financial position or its 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.

Basis for Opinion

We conducted our audits 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. 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 Building Authority 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Building Authority'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 generally accepted auditing standards 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 generally accepted auditing standards 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority'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 on pages 4-7 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

(continued on next page)

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 August 22, 2024 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

August 22, 2024

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2024 and 2023
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Building Authority (Authority) that follows is meant to provide additional insight into the Authority's activities for the years ended June 30, 2024, 2023 and 2022. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

The 2023 Legislature did not authorize any construction projects for the 2023-2025 biennium. The 2021 Legislature also did not authorize any construction projects for the 2021-2023 biennium.

Cash has decreased by \$2,397 to \$64 at June 30, 2024, because of payments to the Universities. The Authority's leases receivable decreased \$5,733 to \$101,364 at June 30, 2024 as construction is complete and lease payments are being made. There were no bonds issued in fiscal years 2024, 2023 and 2022.

Based on certain bond covenants, the Authority is required to establish and restrict prescribed amounts of resources for debt service reserves. In addition, bond proceeds for the construction of projects are also classified as restricted.

The State agencies pay as rent the debt service on the related bonds. The leases also provide that the State agencies pay as additional rent to the Authority reimbursement for trustee fees, paying agent fees, registrar fees, audit fees, arbitrage rebate payments and fees, and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

REQUIRED FINANCIAL STATEMENTS:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2024, 2023 AND 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
ASSETS			
CURRENT ASSETS - RESTRICTED	\$ 5,044	\$ 10,248	\$ 21,109
NONCURRENT ASSETS - RESTRICTED	<u>96,902</u>	<u>99,911</u>	<u>98,577</u>
TOTAL ASSETS	<u>\$ 101,946</u>	<u>\$ 110,159</u>	<u>\$ 119,686</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ 178</u>	<u>\$ 607</u>
LIABILITIES			
CURRENT LIABILITIES	\$ 3,577	\$ 7,347	\$ 9,883
NONCURRENT LIABILITIES	<u>98,369</u>	<u>102,990</u>	<u>110,410</u>
TOTAL LIABILITIES	<u>\$ 101,946</u>	<u>\$ 110,337</u>	<u>\$ 120,293</u>
NET POSITION	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash and Investments

Certain Authority cash and investments, which are included in the restricted current and noncurrent assets, are restricted for the debt service of bond issues or for construction. Additional discussion of cash and investments can be found at Note 2 to the financial statements.

Leases Receivable

Obligations of North Dakota agencies and university system are classified separately on the Statement of Net Position as "leases receivable" and included in the restricted current and noncurrent assets of the Statement of Net Position. These leases are pledged to the various bond issues. No losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contains further information regarding leases receivable.

Bonds Payable

In order to provide state agencies with funds to finance projects, the Authority has issued bonds to facilitate the purchase of the lease. The bonds payable are included in the restricted current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Authority and are secured by leases purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024, 2023 AND 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
OPERATING REVENUES			
Lease interest	\$ 2,951	\$ 3,258	\$ 3,624
Other	68	66	77
	<u>3,019</u>	<u>3,324</u>	<u>3,701</u>
NONOPERATING REVENUE			
Investment interest	<u>11</u>	<u>21</u>	<u>23</u>
TOTAL REVENUE	<u>3,030</u>	<u>3,345</u>	<u>3,724</u>
OPERATING EXPENSES			
Interest expense	2,996	3,307	3,679
Operating	34	38	45
	<u>3,030</u>	<u>3,345</u>	<u>3,724</u>
CHANGE IN NET POSITION	-	-	-
TOTAL NET POSITION, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Lease Interest

The state agencies have agreed to pay as rent the debt service (principal and interest) on the related bonds, to the extent that the bond funds and earnings are used to pay construction and other eligible costs of the projects. See Note 3 to the financial statements for further details of the leases.

Economic and Budgetary Information

The Authority is economically dependent on the North Dakota University System and agencies of the State of North Dakota.

As discussed in financial statement Note 1, the Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the State Legislature at the beginning of each legislative session. The Authority has continuing appropriation from monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

The Authority has a bond rating of AA by Standard and Poor's and Aa2 from Moody's Investor's Service.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

Contacting the North Dakota Building Authority's financial management

The information in this report is intended to provide the reader with an overview of the Authority's operations along with the Authority'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 Building Authority, PO Box 5509, Bismarck, ND 58506-5509.

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2024 and 2023
(In Thousands)

ASSETS	2024	2023
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 64	\$ 2,461
Investments at the Bank of North Dakota	235	235
Leases receivable	4,462	7,186
Lease interest receivable	283	366
Total restricted current assets	<u>5,044</u>	<u>10,248</u>
NONCURRENT ASSETS - RESTRICTED		
Lease receivable	<u>96,902</u>	<u>99,911</u>
Total restricted noncurrent assets	<u>96,902</u>	<u>99,911</u>
Total assets	<u><u>\$ 101,946</u></u>	<u><u>\$ 110,159</u></u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	\$ -	\$ 178
Total deferred outflows of resources	<u><u>\$ -</u></u>	<u><u>\$ 178</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 6	\$ 6
Due to Universities	-	1,181
Bonds payable	3,230	5,795
Interest payable	341	365
Total current liabilities	<u>3,577</u>	<u>7,347</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>98,369</u>	<u>102,990</u>
Total liabilities	<u><u>\$ 101,946</u></u>	<u><u>\$ 110,337</u></u>
NET POSITION	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024 and 2023
(In Thousands)

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Lease interest	\$ 2,951	\$ 3,258
Other	<u>68</u>	<u>66</u>
	<u>3,019</u>	<u>3,324</u>
OPERATING EXPENSES		
Interest expense	2,996	3,307
Operating	<u>34</u>	<u>38</u>
	<u>3,030</u>	<u>3,345</u>
OPERATING LOSS	(11)	(21)
NONOPERATING REVENUE		
Investment interest	<u>11</u>	<u>21</u>
CHANGE IN NET POSITION	-	-
TOTAL NET POSITION, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 and 2023
(In Thousands)

	<u>2024</u>	<u>2023</u>
OPERATING ACTIVITIES		
Receipts of rent	\$ 9,980	\$ 9,998
Receipts of additional rent and other	102	70
Payment to project vendors	(2,428)	(10,446)
Payments to service providers	(34)	(34)
Net cash from (used for) operating activities	<u>7,620</u>	<u>(412)</u>
NONCAPITAL FINANCING ACTIVITIES		
Principal payment on bonds payable	(5,795)	(5,955)
Interest paid on bonds payable	(4,233)	(4,526)
Net cash used for non-capital financing activities	<u>(10,028)</u>	<u>(10,481)</u>
INVESTING ACTIVITIES		
Interest received	11	21
Proceeds from sale and maturity of investment securities	235	663
Purchase of investment securities	(235)	(235)
Net cash from investing activities	<u>11</u>	<u>449</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,397)	(10,444)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,461</u>	<u>12,905</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 64</u>	<u>\$ 2,461</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (11)	\$ (21)
Adjustments to reconcile operating loss:		
Net amortization of bond premium and deferred loss	1,213	1,196
Reclassification of interest income and expense to other activities	(1,202)	(1,181)
Changes in assets and liabilities:		
Lease receivable	6,439	(2,770)
Due to colleges, universities and state agencies	1,181	2,358
Accounts payable	-	6
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 7,620</u>	<u>\$ (412)</u>

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 and 2023
(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Building Authority (Authority) was established July 1, 1985, by the North Dakota Legislature, as provided in Chapter 54-17.2 of the North Dakota Century Code, as a separate instrumentality of the State of North Dakota. The purpose of the Authority is to promote the general welfare of the citizens of the State by providing projects for use by the State in providing public services by altering, repairing, maintaining or constructing buildings primarily for use by the State and making any improvements connected to those buildings or pertaining to those buildings and necessary to the use of those buildings in providing services to the public.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB), the financial reporting entity of North Dakota Building Authority should include all component units over which North Dakota Building Authority 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 North Dakota Building Authority. GASB further defined component units as reporting units that are 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 North Dakota Building Authority or its constituents, and
- North Dakota Building Authority 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 North Dakota Building Authority is entitled to, or can otherwise access, are significant to North Dakota Building Authority.

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

Budgetary Process

The Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the State Legislature at the beginning of each legislative session. The State Legislature enacts the budgets of the various State departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the Authority's financial plan for the next two years. The Authority has continuing appropriation for monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

Basis of Accounting and Measurement Focus

The North Dakota Building Authority 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 Authority recovers its costs through administrative charges to agencies and earnings on funds.

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

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

The Authority's investments consist entirely of certificates of deposit and are reported at amortized cost.

Funds held by trustee under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required.

Leases Receivable

The Authority's leasing operations, as lessor, consist of leasing real estate property under capital leases.

Lease payments are due upon receipt. In the event of non-payment, the item or installment so in default shall continue as an obligation of the agency until the amount in default has been fully paid. The agency agrees to pay interest on any basic rent in default at the rate or rates of interest payable on the Bonds as specified in the Indenture. The agency agrees to pay interest on Additional Rent in default at the rate or rates of interest equal to the Bank of North Dakota Base Rate.

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

Restricted Assets

The Authority, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Other restricted assets can only be used for construction projects financed by related bonds.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2024, the Building Authority had the following deposits (amount in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 64	\$ 235	\$ 299
	<u>\$ 64</u>	<u>\$ 235</u>	<u>\$ 299</u>

The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2023, the Building Authority had the following deposits (amount in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 2,461	\$ 235	\$ 2,696
	<u>\$ 2,461</u>	<u>\$ 235</u>	<u>\$ 2,696</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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 Building Authority 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 Building Authority does not have a formal policy that limits custodial credit risk for deposits. None of the Building Authority's deposits are covered by depository insurance. The Building Authority's deposits are uncollateralized and all of the funds are held on deposit at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Cash is restricted for the following purposes:

	<u>2024</u>	<u>2023</u>
Construction	\$ -	\$ 2,429
Debt service	<u>64</u>	<u>32</u>
	<u>\$ 64</u>	<u>\$ 2,461</u>

Investments

The Building Authority has their moneys invested in certificates of deposit with the Bank of North Dakota as allowed by the Trust Indenture. Funds held by trustees or the Authority under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which monies in the funds or accounts for which the investments were made will be required. The investments are restricted for debt service.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair values of an investment.

As of June 30, 2024, the Authority held certificates of deposit with the following maturity dates (amounts are in thousands):

<u>Investment Type</u>	<u>Less Than 1</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235</u>

As of June 30, 2023, the Authority held certificates of deposit with the following maturity dates (amounts are in thousands):

<u>Investment Type</u>	<u>Less Than 1</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 3 - LEASES RECEIVABLE

After receiving Legislative authority, the Authority purchases or constructs various facilities, which are generally financed by bonds. The facilities are leased to State agencies under terms described below.

The terms of the leases commence as of the date of the sale of the bonds and expire at the end of each biennium on June 30, subject to successive automatic two-year extensions under the provisions of each lease (unless the Legislature specifically fails to appropriate sufficient moneys for the payment of rent under the lease during any two-year renewal term).

Under the lease agreements, the State agencies have agreed to pay as rent the debt service on the related bonds from funds appropriated by the Legislature from the General Fund or other special funds, which may include federal funds.

The Authority is not required to make any expenditures in connection with the leases of the facilities. Upon expiration of a lease, the facility is conveyed to the appropriate agency. At June 30, 2024, future minimum lease payments under agreements are as follows:

	Total Minimum Payment	Unearned Interest Income	Lease Receivable
2025	\$ 8,469	\$ 4,007	\$ 4,462
2026	8,457	3,840	4,617
2027	8,457	3,665	4,792
2028	8,461	3,480	4,981
2029	8,447	3,286	5,161
2030-2034	41,375	13,213	28,162
2035-2039	41,192	6,980	34,212
2040-2041	15,652	675	14,977
	<u>\$ 140,510</u>	<u>\$ 39,146</u>	<u>\$ 101,364</u>

The leases also provide that the State agencies pay as additional rent to the Authority for trustee fees, paying agent fees, registrar fees, letter of credit fees, audit fees and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 4 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2024 and 2023:

	<u>Bonds payable</u>
Balance, June 30, 2022	\$ 116,365
Additions	-
Retirements	(5,955)
Amortization of bond premium	<u>(1,625)</u>
Balance, June 30, 2023	108,785
Additions	-
Retirements	(5,795)
Amortization of bond premium	<u>(1,391)</u>
Balance, June 30, 2024	<u><u>\$ 101,599</u></u>

Maturities of Bonds Payable

Maturities of principal and interest on all bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year Ending June 30,			
2025	\$ 3,230	\$ 4,007	\$ 7,237
2026	3,385	3,840	7,225
2027	3,560	3,665	7,225
2028	3,750	3,480	7,230
2029	3,930	3,285	7,215
2030-2034	22,240	13,213	35,453
2035-2039	28,055	6,980	35,035
2040-2041	13,335	675	14,010
	<u>81,485</u>	<u>39,145</u>	<u>120,630</u>
Unamortized bond premium	20,114	(20,114)	-
	<u><u>\$101,599</u></u>	<u><u>\$ 19,031</u></u>	<u><u>\$ 120,630</u></u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2024 and 2023:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2024</u>	<u>2023</u>
Series 10A Bonds 12/1/16-12/1/30	3.50 - 6.25	\$ 2,355	\$ 1,235	\$ 1,390
Series 17A Bonds 12/1/18-12/1/23	5.00	18,430	-	2,875
Series 20A Bonds 12/1/21-12/1/40	5.00	112,858	100,364	104,520
Total bonds payable			101,599	108,785
Less current portion			3,230	5,795
Long-term portion			\$ 98,369	\$ 102,990

2010 Series A

Interest on the 2010 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2017 Series A

Interest on the 2017 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2020 Series A

Interest on the 2020 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Listing of Projects

<u>Issue</u>	<u>Size</u>	<u>Agency</u>	<u>Project Description</u>
2010A	\$2,355	Veteran's Home	New Facility
2017A	18,430	University System	DSU - Murphy Hall Renovation
		University System	MSU Bottineau - Thatcher Hall Addition and Renovation
		University System	NDSCS - Electrical Distribution
		University System	NDSU - Hazardous Material Handling and Storage Facility
		University System	UND - Energy Conservation Projects
		Historical Society	Heritage Center Collections Expansion
		Department of Corrections	James River ET Building Improvements
		Department of Corrections	James River Program and Building Code Improvements
		OMB	State Capital Complex Fire Suppression System
		Attorney General	Crime Laboratory Renovation and Addition
		Parks and Recreation	Turtle River State Park Office Building Construction
		University System	MSU - Moore Hall Renovation
		University System	NDSCS - Butte Gym Remodeling
		University System	NDSU - Animal Facility
		Department of Corrections	YCC Gym Renovation
		Department of Corrections	YCC Pine Cottage Remodel
		University System	WSC - Health and Wellness Center
		University System	MSU - Old Main Renovation
2020A	88,585	University System	DSU - Pulver Hall
		University System	NDSU - Sugihara Hall
		University System	UND - Gamble Hall
		University System	VCSU - Communication & Fine Arts Center
		University System	UND - Deferred Maintenance

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Reserve Funds

	2024		2023	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
2010A	\$ 235	\$ 235	\$ 235	\$ 235
	<u>\$ 235</u>	<u>\$ 235</u>	<u>\$ 235</u>	<u>\$ 235</u>

The 2010 bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make the payments. Funds are also required for any positive arbitrage due the Federal government.

NOTE 5 - DUE TO UNIVERSITIES

The North Dakota Building Authority is responsible for the distribution of construction voucher reimbursement as requested by the individual colleges and universities for approved projects. The below table provides the detail of the payables at June 30, 2024 and 2023.

	2024	2023
University of North Dakota	<u>\$ -</u>	<u>\$ 1,181</u>

NOTE 6 - PROJECT FINANCING

Cumulative amount paid from the respective Series 2020A project funds to pay project costs as of June 30:

	2024	2023
Construction Funding		
University System		
Dickinson State University	\$ 4,000	\$ 4,000
North Dakota State University	40,000	39,975
University of North Dakota - Nistler College of Business	6,000	6,000
University of North Dakota - Deferred Maintenance	30,000	27,994
Valley City State University	30,000	29,778
	<u>\$ 110,000</u>	<u>\$ 107,747</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Amount of Principal, interest and administrative fees paid by the borrower as of June 30:

	<u>2024</u>	<u>2023</u>
Lease Receipts		
NDUS Office/Campuses	\$ 8,469	\$ 18,025
State Penitentiary	144	501
Health and Consolidate	-	341
Soldiers Improvement	186	410
Job Service	-	232
Attorney General	330	648
OMB	284	565
Parks and Recreation	31	66
Historical Society	593	1,180
	<u>\$ 10,037</u>	<u>\$ 21,968</u>

NOTE 7 - RELATED PARTY

The North Dakota Building Authority is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. The Authority's deposits and investments are held by the Bank of North Dakota.

The Bank of North Dakota acts as the trustee for the bondholders having been duly appointed by the Authority. The Bank also acts as the paying agent, registrar, and escrow agent for the bonds issued and defeased by the Authority. Fees paid by the Authority to the Bank of North Dakota for these services for the years ending June 30, 2024, and 2023, were \$11 and \$13, respectively.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2024, and 2023, were \$3 and \$3, respectively.

NOTE 8 - COMMITMENTS

The Authority committed funds to complete various construction and modernization programs at June 30, 2024 and 2023 as follows:

	<u>2024</u> <u>Amount</u>	<u>2023</u> <u>Amount</u>
North Dakota State University	\$ -	\$ 200
University Of North Dakota	-	2,006
Valley City State University	-	222
	<u>\$ -</u>	<u>\$ 2,428</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, and damage to assets and errors and omissions. These risks of loss are covered under the insurance policies owned by the North Dakota Industrial Commission, North Dakota Public Finance Authority and North Dakota Office of Management and Budget. The State Bonding Fund currently provides the agencies with blanket fidelity bond coverage in the amount of \$2,000 for its employees. 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. In addition, there have been no claims filed or settled in the past three fiscal years.

NOTE 10 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the Authority's year end. Subsequent events have been evaluated through August 22, 2024, which is the date these financial statements were available to be issued.

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*

The Industrial Commission
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 North Dakota Building Authority, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 22, 2024.

Report On Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 is 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 result 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

August 22, 2024

**SUMMARY OF NORTH DAKOTA
BUILDING AUTHORITY AUDIT
FOR FISCAL YEAR ENDED JUNE 30, 2024
PREPARED BY BRADY, MARTZ & ASSOCAITES, P.C.
AUGUST 22, 2024**

Purpose of the audit: To determine the financial statements are free from material misstatement.

Type of opinion: Unmodified

Summary of finding/recommendations: No findings/recommendations

Explanations of significant audit adjustments and correct or uncorrected misstatements:

1. The following material misstatements were identified as a result of the audit procedures performed, which were corrected by management:
 - a. None
2. The following uncorrected misstatements were identified as a result of the audit procedures performed, which were determined by management to be immaterial both individually and in the aggregate:
 - a. None

Disagreements with management or difficulties encountered in performing the audit: None

Other items to highlight in the report: None

Cost of the audit:

Current audit \$14,225

Prior audit \$13,750

Independent Auditor's Communication to the Industrial Commission of North Dakota

The Industrial Commission
The Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Building Authority ("Authority") for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you on July 29, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2024. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. There are no significant estimates affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were detected as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 22, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Building Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

August 22, 2024