Financial Statements
June 30, 2017 and 2016

# Addiction Counselor Internship Loan Program

# ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM

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**Independent Auditor's Report**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

**Report on the Financial Statements**
We have audited the accompanying financial statements of the Addiction Counselor Internship Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

**Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements 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 Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program, as of June 30, 2017 and 2016, and the respective changes in its financial position and its 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, the financial statements of the Program are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 2017 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Program'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 Program's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
September 12, 2017

The management discussion and analysis of the Addiction Counselor Internship Loan Program's (the Program) financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the financial statements of the Program.

FINANCIAL HIGHLIGHTS:

The Addiction Counselor Internship Loan Program was established by North Dakota Century Code Section 43-45-05.4 for the purpose of providing loans to qualified individuals participating in a paid or unpaid internship at a licensed substance abuse treatment facility in North Dakota in order to obtain licensure as an addiction counselor.

There were seven loans totaling $52,500 made by the Program for the year ended June 30, 2017, compared to seven loans totaling $52,000 for the year ended June 30, 2016. There was one pending application as of June 30, 2017 for $7,000. At June 30, 2017, the gross amount of outstanding loans was $88,185 with an allowance for loan losses of $4,400 for net loans of $83,785.

Funds available for investment in loans for the year ended June 30, 2017 were $109,353.

REQUIRED FINANCIAL STATEMENTS:

The Program is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows. The statement of net position provides readers the assets and liabilities of the Program, with the differences between the two reported as net position. The statement of revenues, expenses, and changes in fund net position identifies the operating performance of the Program for the fiscal year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, and investing activities, and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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**CONDENSED STATEMENTS OF NET POSITION**
**JUNE 30, 2017 AND 2016**

| | **2017** | 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | **$ 109,353** | $ 148,074 |
| Loans, net | **83,785** | 49,400 |
| Interest receivable | **872** | 902 |
| Total assets | **194,010** | 198,376 |
| DEFERRED OUTFLOWS OF RESOURCES | **-** | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | **$ 194,010** | $ 198,376 |
| LIABILITIES | **$ -** | $ - |
| DEFERRED INFLOWS OF RESOURCES | **-** | - |
| NET POSITION - UNRESTRICTED | **194,010** | 198,376 |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | **$ 194,010** | $ 198,376 |

*Establishment of the Program*

The 2015 Legislative Session established the Addiction Counselor Internship Loan Program, effective July 1, 2015. In August of 2015, the Program received a $200,000 transfer from the North Dakota Student Loan Trust.

*Loans*

There were seven loans totaling $52,500 made during the fiscal year 2017, compared to seven loans totaling $52,000 made during the fiscal year 2016. As of June 30, 2017, there are twelve loans outstanding totaling $88,185 with an allowance for loan losses of $4,400 for net loans of $83,785.

*Net Position*

Net position of the Program was $194,010 and $198,376 as of June 30, 2017 and 2016, respectively.

(continued on next page)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**
**YEARS ENDED JUNE 30, 2017 AND 2016**

| | **2017** | 2016 |
|---|---|---|
| OPERATING REVENUES | **$ 2,837** | $ 902 |
| OPERATING EXPENSES | **7,264** | 2,600 |
| OPERATING LOSS | **(4,427)** | (1,698) |
| NONOPERATING REVENUES | **61** | 74 |
| NONOPERATING INCOME | **61** | 74 |
| LOSS BEFORE TRANSFERS | **(4,366)** | (1,624) |
| OPERATING TRANSFERS | **-** | 200,000 |
| CHANGE IN NET POSITION | **(4,366)** | 198,376 |
| TOTAL NET POSITION, BEGINNING OF YEAR | **198,376** | - |
| TOTAL NET POSITION, END OF YEAR | **$ 194,010** | $ 198,376 |

*Revenue*

Operating revenue is from interest accrued on loans outstanding. The interest rate on outstanding loans accrues at the Bank of North Dakota's current base rate, or 4.25% as of June 30, 2017, but may not exceed six percent.

*Expenses*

The provision for loan loss was $1,800 and $2,600 for the years ended June 30, 2017 and 2016, respectively. The only other expense of the Program is an annual independent audit of the financial records.

*Nonoperating Revenue*

Nonoperating revenue represents interest earned on the cash and cash equivalents.

*Transfers*

On August 19, 2015 the Program received a transfer of $200,000 from the North Dakota Student Loan Trust.

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## ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2017, there was one pending application to extend credit for $7,000. Loans made by the Program may not exceed seven thousand five hundred dollars, must accrue at the Bank's current base rate, but may not exceed six percent, and must have a repayment schedule of no longer than ten years.

## CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Program's finances and to demonstrate the Program's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

# ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
## STATEMENTS OF NET POSITION
## JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 109,353** | $ 148,074 |
| Loans, current portion | **7,435** | 2,906 |
| Interest receivable | **872** | 902 |
| Total current assets | **117,660** | 151,882 |
| Noncurrent Assets | | |
| Loans, net of allowance for loan losses of $4,400 in 2017 and $2,600 in 2016 | **76,350** | 46,494 |
| Total assets | **194,010** | 198,376 |
| DEFERRED OUTFLOWS OF RESOURCES | **-** | - |
| Total assets and deferred outflows | **$ 194,010** | $ 198,376 |
| LIABILITIES | **$ -** | $ - |
| DEFERRED INFLOWS OF RESOURCES | **-** | - |
| NET POSITION | | |
| Unrestricted | **194,010** | 198,376 |
| Total liabilities, deferred inflows and net position | **$ 194,010** | $ 198,376 |

## ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
### YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING REVENUES | | |
| Interest on loans | $ 2,837 | $ 902 |
| OPERATING EXPENSES | | |
| Audit expenses | 5,464 | - |
| Provision for loan loss | 1,800 | 2,600 |
| OPERATING LOSS | (4,427) | (1,698) |
| NONOPERATING REVENUES | | |
| Investment income | 61 | 74 |
| NONOPERATING INCOME | 61 | 74 |
| LOSS BEFORE TRANSFERS | (4,366) | (1,624) |
| OPERATING TRANSFERS | | |
| Transfer from North Dakota Student Loan Trust | - | 200,000 |
| CHANGE IN NET POSITION | (4,366) | 198,376 |
| TOTAL NET POSITION, BEGINNING OF YEAR | 198,376 | - |
| TOTAL NET POSITION, END OF YEAR | $ 194,010 | $ 198,376 |

# ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2017 AND 2016

| | **2017** | 2016 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Payment of audit expenses | **$ (5,464)** | $ - |
| NET CASH USED FOR OPERATING ACTIVITIES | **(5,464)** | - |
| NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer from North Dakota Student Loan Trust | **-** | 200,000 |
| NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES | **-** | 200,000 |
| INVESTING ACTIVITIES | | |
| Investment income received | **61** | 74 |
| Loan interest received | **1,546** | - |
| Proceeds from principal collections on loans | **17,636** | - |
| Loans advanced | **(52,500)** | (52,000) |
| NET CASH USED FOR INVESTING ACTIVITIES | **(33,257)** | (51,926) |
| NET CHANGE IN CASH | **(38,721)** | 148,074 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | **148,074** | - |
| CASH AND CASH EQUIVALENTS, END OF YEAR | **$ 109,353** | $ 148,074 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES | | |
| Operating loss | **$ (4,427)** | $ (1,698) |
| Adjustments to reconcile operating loss to net cash from operating activities | | |
| Adjustment for provision for loan loss | **1,800** | 2,600 |
| Reclassification of items to other activities | | |
| Interest income on loans | **(2,837)** | (902) |
| NET CASH USED FOR OPERATING ACTIVITIES | **$ (5,464)** | $ - |

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations*

Section 43-45-05.4 of the North Dakota Century Code (NDCC) established the Addiction Counselor Internship Loan Program (the Program), effective July 1, 2015. The purpose of the Program is to provide loans to qualified individuals participating in a paid or unpaid internship at a licensed substance abuse treatment facility in North Dakota in order to obtain licensure as an addiction counselor. The Bank of North Dakota administers the Program and all loans made by the Program.

The Program was established by a two hundred thousand dollar transfer from the North Dakota Student Loan Trust. All moneys transferred into the program, interest upon moneys in the program, and payments to the program of principal and interest on loans are appropriated to the Bank of North Dakota on a continuing basis.

Loans made by the Program may not exceed seven thousand five hundred dollars, must accrue at the Bank of North Dakota's current base rate, but may not exceed six percent, and must have a repayment schedule of no longer than ten years.

*Reporting Entity*

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

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

*Fund Accounting*

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

*Basis of Accounting and Measurement Focus*

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

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*Use of Estimates*

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

*Significant Group Concentrations of Credit Risk*

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

*Cash and Cash Equivalents*

The Program considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for the purpose of reporting cash flows.

*Loans*

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at Bank of North Dakota's current base rate, not to exceed six percent, on the unpaid principal balance.

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

*Allowance for Loan Losses*

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

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

*Credit Related Financial Instruments*

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

*Operating and Non-operating Revenues*

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

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## NOTE 2 - DEPOSITS AND INVESTMENTS

*Deposits*

The carrying value and bank balance of the Program's cash deposits at June 30, 2017 and 2016 was $109,353 and $148,074, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

*Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program 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 Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program's deposits are uncollateralized and all of the deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

## NOTE 3 - LOANS

A description of Program loans is included under "Nature of Operations" in Note 1. A summary of the balances of the loans are as follows:

| | **2017** | 2016 |
|---|---|---|
| Loans, current portion | **$ 7,435** | $ 2,906 |
| Loans, noncurrent portion | **80,750** | 49,094 |
| Total loans | **88,185** | 52,000 |
| Allowance for loan losses | **4,400** | 2,600 |
| Total loans, net | **$ 83,785** | $ 49,400 |

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Changes in the balances of loans are as follows:

| | |
|---|---|
| Balance, June 30, 2015 | **$ -** |
| Loan advances | **52,000** |
| Principal collections | **-** |
| Balance, June 30, 2016 | **52,000** |
| Loan advances | **52,500** |
| Capitalized interest | **1,321** |
| Principal Collections | **(17,636)** |
| Balance, June 30, 2017 | **$ 88,185** |

Changes in the allowance for loan losses are as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance, beginning of year | **$ 2,600** | $ - |
| Provision for loan losses | **1,800** | 2,600 |
| Balance, end of year | **$ 4,400** | $ 2,600 |

There were no impaired loans as of June 30, 2017. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2017.

## NOTE 4 - RELATED PARTY TRANSACTIONS

House Bill 1049 of the 2015 Legislative Session created the Program and authorized a transfer from the North Dakota Student Loan Trust of $200,000. The Program is supervised and administered by the Bank of North Dakota. All cash accounts are deposited with the Bank of North Dakota.

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## NOTE 5 - LOAN COMMITMENTS

The Program is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Program's exposure to credit loss is represented by the contractual amount of these commitments. The Program follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There was one pending application for $7,000 to extend credit as of June 30, 2017.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

## NOTE 6 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

> The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.
>
> The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

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

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**Exhibit A-1**

**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
State of North Dakota
Bismarck, North Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Addiction Counselor Internship Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements and have issued our report thereon dated September 12, 2017.

**Internal Control over Financial Reporting**
In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the 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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

www.eidebailly.com
1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program'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.

Eide Bailly LLP

Bismarck, North Dakota
September 12, 2017

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Exhibit A-2

**Addiction Counselor Internship Loan Program**
**Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee**
**Year Ended June 30, 2017**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

1. What type of opinion was issued on the financial statements?

   Unmodified

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

   Yes

3. Was internal control adequate and functioning effectively?

   Yes

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

   No

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

   There were no prior year findings or recommendations.

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

   No

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Audit Committee Communications:

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

   None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

   Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

   None

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

   None

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

   None

6. Identify any major issues discussed with management prior to retention.

   None

7. Identify any management consultations with other accountants about auditing and accounting matters.

   None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

   Based on the audit procedures performed, the Program's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

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

Eide Bailly LLP

Bismarck, North Dakota
September 12, 2017

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Addiction Counselor Internship Loan Program (the Program) as of and for the year ended June 30, 2017, and have issued our report thereon dated September 12, 2017. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated April 17, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Planned Scope and Timing of the Audit**

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

**Exhibit B-1**

**Compliance with All Ethics Requirements Regarding Independence**

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

**Qualitative Aspects of the Entity's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

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

**Significant Difficulties Encountered during the Audit**

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

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements identified as a result of our audit procedures.

### Disagreements with Management

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

### Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated September 12, 2017.

### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

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

Eide Bailly LLP

Bismarck, North Dakota
September 12, 2017