Financial Statements
December 31, 2012 and 2011

Beginning Farmer Revolving Loan Fund

BEGINNING FARMER REVOLVING LOAN FUND

Table of Contents

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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 Beginning Farmer Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund'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 audit. We conducted our audit 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 audit 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 Fund'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 Fund'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 Fund, as of December 31, 2012, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
The financial statements of the Beginning Farmer Revolving Loan Fund as of and for the year ended December 31, 2011, were audited by other auditors whose report dated February 27, 2012, expressed an unqualified opinion on those statements.

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 inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
April 9, 2013

The management discussion and analysis of the Beginning Farmer Revolving Loan Fund (the Fund) financial performance provides an overview of the Fund’s financial activities for the fiscal years ended December 31, 2012, 2011 and 2010. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS

Beginning Farmer Real Estate Loans

Prior to 1997, the Beginning Farmer Real Estate loans were made directly by the Fund with a first mortgage on the real estate. On June 1, 2011 the remaining 41 loans totaling $1,348 were sold to Bank of North Dakota.

Currently Beginning Farmer Real Estate loans are being funded directly by Bank of North Dakota. The Fund provides buy down funds, to the extent available, to reduce the borrower's interest rate by 2% for the first five years of the loan. The borrower is limited to $400 in total loans. There were 64 loans totaling $13,323 made during 2012 with this program. These loans will require $1,268 in buy down interest during the life of the loans. There were 70 loans totaling $12,947 made during 2011, which will utilize $1,232 in buy down interest during the life of the loans. There were 64 loans totaling $13,657 made during 2010, which will utilize $1,300 in buy down interest during the life of the loans. There are currently 1,313 loans outstanding totaling $104,831 made directly by the Bank of North Dakota (BND) that are receiving buy down interest from the Fund.

Beginning Farmer Chattel Loans Originated out of the Fund

There are two components to this program. These loans are made in conjunction with a lead lender. BND is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. These loans are secured by a first security interest on the chattel with a maximum loan to collateral value of 80%. The borrowers are limited to $400 in total loans. On June 28, 2011 the Fund’s loan portfolio of 321 loans totaling $8,646 was sold to Bank of North Dakota.

There were 99 loans totaling $11,352 made during 2012 with this loan program, of which BND participated in $5,514. These loans will utilize $947 in buy down interest. There were 91 loans totaling $10,107 made during 2011 with this program, of which BND participated in $4,103. These loans will utilize $769 in interest. There were 63 loans totaling $5,500 made during 2010 with this program, of which BND participated in $2,259. These loans will utilize $422 in interest. The second component of this program provides for interest buy down on the lead lender's share of the loan. The lead lender's interest rate may not exceed 3% over BND's base rate and may be variable or fixed. Interest buy down funds are provided through the chattel loan program, to the extent available, to reduce the borrower's interest rate by up to 5% subject to a minimum rate of 1% to the borrower.

Beginning Farmer Revolving Fund Balance Summary

With strong demand for Beginning Farmer loans and increase in the total loan amount per borrower, the cash balance in the Fund was depleted in June of 2011. The Bank of North Dakota elected to purchase $9,994 of loans from the Fund to replenish the cash position. As authorized by Chapter 6-09-15.5 of the North Dakota Century code, $4,000 was transferred to the Ag Pace Loan Program in 2012. There remains $3,981 in cash available to provide interest buy down to beginning farmers for both chattel and real estate purchases. There was a $1,400 appropriation from the general fund for the biennium July 1, 2011 through June 30, 2013 for interest buy down purposes to beginning farmers.

(Dollars in Thousands)

Envest Loans Funded by BND and a Lead Lender

Section 6-09-15.5 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than $1,000 can be transferred from the Fund during a biennium. There were no new Envest loans made during 2012. There was 1 Envest loan made during 2011 and 2010 totaling $100 and $855, respectively, that were not eligible for interest buy-down from the Fund.

REQUIRED FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEETS
DECEMBER 31, 2012, 2011 AND 2010

	2012	2011	2010
ASSETS			
CURRENT ASSETS			
Cash deposits	**$ 3,981**	$ 10,100	$ 1,763
Loans, current portion	**-**	-	1,857
Prepaid interest and interest receivable	**1,431**	1,385	1,388
Total current assets	**5,412**	11,485	5,008
NONCURRENT ASSETS			
Loans, net	**-**	-	6,106
Prepaid interest	**3,597**	3,029	2,591
Total noncurrent assets	**3,597**	3,029	8,697
Total assets	**$ 9,009**	$ 14,514	$ 13,705
CURRENT LIABILITIES	**$ -**	$ -	$ 12
NET POSITION - UNRESTRICTED	**9,009**	14,514	13,693
Total liabilities and net position	**$ 9,009**	$ 14,514	$ 13,705

Loans

On an aggregate basis, the net loan portfolio decreased by $7,963 in 2011. The loan portfolio was sold to Bank of North Dakota in July 2011. The net loan portfolio decreased by $434 in 2010.

Net Position

At December 31, 2012, 2011 and 2010, net position was $9,009, $14,514 and $13,693, respectively. The decrease in net position from 2011 to 2012 was due to a $4,000 transfer from the Fund to the Ag Pace Loan Program and an operating loss of $1,500 during 2012. As described in Note 1, direct real estate loans and chattel loans are funded directly from the net position of the Fund. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	(In Thousands)		
	2012	2011	2010
OPERATING REVENUES	**$ -**	$ 138	$ 319
OPERATING EXPENSES	**1,510**	726	1,190
OPERATING LOSS	**(1,510)**	(588)	(871)
NONOPERATING REVENUES	**5**	9	6
LOSS BEFORE TRANSFERS	**(1,505)**	(579)	(865)
TRANSFERS	**(4,000)**	1,400	-
CHANGE IN NET POSITION	**(5,505)**	821	(865)
TOTAL NET POSITION BEGINNING OF YEAR	**14,514**	13,693	14,558
TOTAL NET POSITION END OF YEAR	**$ 9,009**	$ 14,514	$ 13,693

Revenue

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans range from 3% to 8%. There were no outstanding loans during 2012.

Expenses

Buy-down interest is paid to the banks that participate in the various programs of the Fund. Bank of North Dakota is paid 1/2% on the outstanding loan balances as an administrative fee. Other expenses are for the independent audit of the financial records and miscellaneous expenditures incurred in connection with loan servicing.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance.

Changes in Net Position

Net position decreased by $5,505 or 37.9% for the year ended December 31, 2012; increased $821 or 6.0% for the year ended December 31, 2011; and decreased $865 or 6.0% for the year ended December 31, 2010.

ECONOMIC CONDITION AND OUTLOOK

Every aspect of North Dakota's farm economy is showing strength. Agricultural asset values and profitability is expected to continue at or exceed current record levels for the next 12 months. The allowance for credit loss for farm loans was reduced during 2012 as a result of an analysis that concluded overall lower risk.

CONTACTING THE LOAN FUND'S FINANCIAL MANAGEMENT

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

BEGINNING FARMER REVOLVING LOAN FUND
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	**$ 3,981**	$ 10,100
Prepaid interest, current portion	**1,431**	1,385
Total current assets	**5,412**	11,485
NONCURRENT ASSETS		
Prepaid interest	**3,597**	3,029
Total noncurrent assets	**3,597**	3,029
Total assets	**$ 9,009**	$ 14,514
NET POSITION		
Unrestricted	**$ 9,009**	$ 14,514
Total net position	**$ 9,009**	$ 14,514

BEGINNING FARMER REVOLVING LOAN FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
OPERATING REVENUES		
Interest on loans	**$ -**	$ 138
OPERATING EXPENSES		
Buy-down interest	**1,504**	1,309
Administrative fees	**-**	21
Provision for loan loss	**-**	(609)
Other expenses	**6**	5
	1,510	726
OPERATING LOSS	**(1,510)**	(588)
NONOPERATING REVENUES		
Investment income	**5**	9
LOSS BEFORE TRANSFERS	**(1,505)**	(579)
TRANSFERS		
Transfer from General Fund	**-**	1,400
Transfer to Ag Pace Loan Program	**(4,000)**	-
CHANGE IN NET POSITION	**(5,505)**	821
TOTAL NET POSITION, BEGINNING OF YEAR	**14,514**	13,693
TOTAL NET POSITION, END OF YEAR	**$ 9,009**	$ 14,514

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
OPERATING ACTIVITIES		
Loan interest received	**$ -**	$ 320
Payment of buy-down interest to lenders	**(2,118)**	(1,926)
Payment of administration fees to Bank of North Dakota	**-**	(33)
Payment of other expenses	**(6)**	(5)
NET CASH USED FOR OPERATING ACTIVITIES	**(2,124)**	(1,644)
NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Ag Pace Loan Program	**(4,000)**	-
Transfer from General Fund	**-**	1,400
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	**(4,000)**	1,400
INVESTING ACTIVITIES		
Loan advances	**-**	(2,846)
Sale of loans	**-**	9,994
Proceeds from principal collections on loans	**-**	1,424
Investment income received	**5**	9
NET CASH PROVIDED BY INVESTING ACTIVITIES	**5**	8,581
NET CHANGE IN CASH	**(6,119)**	8,337
CASH, BEGINNING OF YEAR	**10,100**	1,763
CASH, END OF YEAR	**$ 3,981**	$ 10,100
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	**$ (1,510)**	$ (588)
Adjustments to reconcile operating loss to net cash used for operating activities		
Decrease in interest receivable	**-**	183
Decrease in allowance for credit loss	**-**	(609)
Increase in prepaid interest	**(614)**	(618)
Decrease in due to Bank of North Dakota	**-**	(11)
Decrease in other accrued liabilities	**-**	(1)
NET CASH USED FOR OPERATING ACTIVITIES	**$ (2,124)**	$ (1,644)

See Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.8 of the North Dakota Century Code (NDCC) established the Beginning Farmer Revolving Loan Fund (the Fund). The purpose of the Fund is to make or participate in loans to North Dakota beginning farmers for the purchase of agricultural real estate, equipment, and livestock. The Fund is a revolving fund, and all moneys transferred into the fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest on loans made from the fund are appropriated for the purpose of providing loans and to supplement the interest rate on loans to beginning farmers.

The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund. Four programs have been established under the Fund, including two direct loan programs and two interest buy-down programs.

Direct Real Estate Loans

Previous to 1989, most of the loans made by the Fund were made to beginning farmers in conjunction with the Federal Land Bank of St. Paul. These loans are secured by a second mortgage on agricultural real estate and may not exceed the lesser of 35% of the appraised value of the real estate or $100 per borrower.

Subsequent to 1988, a direct real estate loan may not exceed 75% of the current appraised value of the farm real estate on which the Fund receives a first mortgage as security. The total loan amount was increased from $100 to $150 in 1999, to $250 in 2005, and to $400 in 2009. The borrower is restricted to a lifetime cap of $400 under this program. The term of the loan may not exceed 25 years. The interest rate will be fixed at one percent below the Bank of North Dakota’s current base rate for the first five years of the loan with maximum interest rate of six percent and variable at one percent below the Bank’s then current base rate adjusted annually for the next five years. For the remaining period of the loan, interest must be charged at the Bank’s base rate.

Interest Buy-Downs on Real Estate Loans

The Bank of North Dakota makes direct loans to beginning farmers for the purchase of farm real estate. The loans are restricted to the same terms as indicated above. The interest rate for the first five years is supplemented by 2% per annum from the Fund.

Chattel Loans

A participation loan for the purchase of equipment or livestock may not exceed 80% of the agricultural collateral on which the Fund receives a first security interest as collateral. The Fund is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. The total loan amount was increased from $250 to $400 in 2009. The borrower is restricted to a lifetime cap of $400 under this program for the purchase of equipment or livestock. The term of the loan may not exceed 7 years. The interest rate on Fund’s share of the chattel loan will be fixed at 1% below the Bank of North Dakota’s current base rate for the first five years of the loan with maximum interest rate of 6% and variable at 1% below the Bank’s then current base rate adjusted annually for the next two years.

Interest Buy-Downs on Chattel Loans

The lead lender’s interest rate of the chattel loan will be set according to prevailing market rates, but may not exceed 3% over the Bank of North Dakota’s base rate. Interest buy-downs funds, to the extent they are available, are used to reduce the lead lender’s rate by 5% subject to a minimum rate of 1% to the borrower.

Interest Buy-Downs on Envest Loans
Section 6-09.8 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than $1,000 can be transferred from the Fund during a biennium. There were no new loans made in 2012. There was 1 loan made during 2011 totaling $100. This loan will not utilize interest buydown from the Fund.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted 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 balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

All of the Fund's business is with beginning farmers within the State of North Dakota. Concentrations of credit are present in the agricultural industry. Due to the pervasive nature of agriculture in the economy of the State, all loans are impacted by agriculture.

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at the specific rate 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 Fund uses the allowance method in providing for loan losses. Accordingly, the allowance is increased by the current year's provision for loan losses charged to operations and reduced by net charge-offs.

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

Credit Related Financial Instruments

In the ordinary course of business, the Fund has entered into commitments to buy-down interest rates on loans. Such financial instruments are recorded when they are funded.

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

The carrying value and bank balance of the Fund's cash deposits at December 31, 2012 and 2011 was $3,981 and $10,100, 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).

(Dollars 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 Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTE 3 - LOANS

A description of Fund loans is included under "Nature of Operations" in Note 1.

Changes in the balances of loans follows:

	Real Estate Loans		Chattel Loans		Total
	Number	Amount	Number	Amount	Amount
Balance,					
December 31, 2010	44	$ 1,511	291	$ 7,061	$ 8,572
Loan advances	-	-	48	2,846	2,846
Sale of loans	(41)	(1,348)	(321)	(8,646)	(9,994)
Principal collections	(3)	(163)	(18)	(1,261)	(1,424)
Balance,					
December 31, 2011	-	-	-	-	-
Loan advances	-	-	-	-	-
Sale of loans	-	-	-	-	-
Principal collections	-	-	-	-	-
Balance,					
December 31, 2012	-	$ -	-	$ -	$ -

(Dollars in Thousands)

NOTE 4 - PREPAID INTEREST AND COMMITMENTS

A description of the interest buy-down programs is included under "Nature of Operations" in Note 1. The moneys that are being paid to the Bank of North Dakota and the other lead lenders to buy down the interest rate for qualifying loans is paid in advance. Prepaid interest is amortized over the life of the loans based upon the repayment terms of the loan for chattel and Envest loans. Prepaid interest is amortized over five years based upon the repayment terms of the loan for real estate loans. A summary of the balances of prepaid interest follows:

	2012	2011
Prepaid interest, current portion	**$ 1,431**	$ 1,385
Prepaid interest, noncurrent portion	**3,597**	3,029
Total prepaid interest	**$ 5,028**	$ 4,414

Changes in the balances of prepaid interest follows:

	Real Estate Loans (BND)	Chattel Loans (Other Banks)	Envest Loans	Total Prepaid Interest
Balance, December 31, 2010	$ 2,664	$ 1,113	$ 19	$ 3,796
Additions, net of returns	1,210	716	-	1,926
Amortization	(923)	(379)	(6)	(1,308)
Balance, December 31, 2011	2,951	1,450	13	4,414
Additions, net of returns	1,232	886	-	2,118
Amortization	(1,042)	(457)	(5)	(1,504)
Balance, December 31, 2012	$ 3,141	$ 1,879	$ 8	$ 5,028

The prepaid interest at the Bank of North Dakota is being utilized to buydown the interest rate on 321 loans with outstanding principal balances of $56,968 as of December 31, 2012 and 296 loans with a balance of $50,235 as of December 31, 2011. The prepaid interest at other lead lenders is being utilized to buy down the interest rate on chattel loans made by participating banks involved with the chattel loan program.

NOTE 5 - RELATED PARTY TRANSACTIONS

During 2012, $4,000 was transferred to the Ag Pace Loan Program. There were no transfers to other funds during the year ended December 31, 2011. There was a $1,400 transfer in from the State's General Fund during 2011.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Bank stopped charging an administrative fee after the loans were transferred to Bank of North Dakota. Previously, the annual administrative fees charged by the Bank were equivalent to one-half percent of the outstanding loans. Administrative fee expense charged by the Bank totaled $22 for the year ended December 31, 2011. The Bank of North Dakota purchased the Program's remaining Real Estate loans of $1,348 on June 1, 2011 and remaining Chattel loans of $8,646 on June 28, 2011.

The Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buy-downs on real estate and chattel loans, which is included in prepaid interest on the Fund's balance sheets (See Note 4).

NOTE 6 - RISK MANAGEMENT

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

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

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

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Exhibit A-1

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 Beginning Farmer Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated April 9, 2013.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 Fund'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 been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Fund'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 Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
April 9, 2013

Exhibit A-2

Beginning Farmer Revolving Loan Fund
Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
Year Ended December 31, 2012

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?**

   An unqualified opinion was issued on the 2012 financial statements.

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

   Yes - A review was made of Chapter 6-09-15.5 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

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.

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

   No

Audit Committee Communications:

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

   None

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

   Management's estimate of the Amortization of Prepaid Interest is based on the estimate life of the loan for Chattel and Envest loans, but over five years based on repayment terms for Real Estate loans. We evaluated the key factors and assumptions used to develop the Amortization of Prepaid Interest 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 serious 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 to be addressed by auditors 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 and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
April 9, 2013

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CPAs & BUSINESS ADVISORS

Exhibit B-1

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

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

We have audited the financial statements of the Beginning Farmer Revolving Loan Fund for the year ended December 31, 2012. 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 in our letter to you dated January 28, 2013. 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 Fund are described in Note 1 to the financial statements. During 2012, the Fund implemented GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which did not have a significant effect on financial reporting. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Fund 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. The most sensitive estimate affecting the Beginning Farmer Revolving Loan Fund's financial statements was:

> Management's estimate of the Amortization of Prepaid Interest is based on the estimate life of the loan for Chattel and Envest loans, but over five years based on repayment terms for Real Estate loans. We evaluated the key factors and assumptions used to develop the Amortization of Prepaid Interest in determining that it is reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. Summarized below are the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Understatement of Prepaid Interest and Understatement of Accounts Payable to fund the Prepaid Interest Escrow at BND - $11,236

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 April 9, 2013.

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 Fund'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 Fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission and management of the Beginning Farmer Revolving Loan Fund, and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
April 9, 2013