Financial Statements
December 31, 2013 and 2012

Beginning Farmer Revolving Loan Fund

BEGINNING FARMER REVOLVING LOAN FUND

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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 years ended December 31, 2013 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of American 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to 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.

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

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, 2013 and 2012, 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 Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2013 and 2012 and the changes in its financial position and 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.

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 7 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 response 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 February 27, 2014 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
February 27, 2014

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, 2013, 2012 and 2011. 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 (BND).

Currently Beginning Farmer Real Estate loans are being funded directly by BND. 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 $500 in total loans. There were 47 loans totaling $12,752 made during 2013 with this program. These loans will require $1,230 in buy down interest during the life of the loans. There were 64 loans totaling $13,323 made during 2012, which will utilize $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 are currently 1,311 loans outstanding totaling $109,838 made directly by the 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 $500 in total loans. On June 28, 2011 the Fund's loan portfolio of 321 loans totaling $8,646 was sold to BND.

There were 72 loans totaling $6,005 made during 2013 with this loan program, of which BND participated in $3,047. These loans will utilize $450 in buy down interest. 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. 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 2% over BND's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. 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 4% 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 BND 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, $300 was transferred to the Flex Pace Loan Program in 2013 and $4,000 was transferred to the Ag Pace Loan Program in 2012. There remains $3,322 in cash available to provide interest buy down to beginning farmers for both chattel and real estate purchases. There was a $6,000 appropriation from the BND's undivided profits for the biennium July 1, 2013 through June 30, 2015 for interest buy down purposes to beginning farmers, of which $1,200 had been transferred to the Fund as of December 31, 2013. There was a $1,400 appropriation from the State General Fund for the biennium July 1, 2011 through June 30, 2013 for interest buy down purposes to beginning farmers which was received during the year ended December 31, 2011.

Envest Loans Funded by BND and a Lead Lender:

Section 6-09-15.5 of the North Dakota Century Code authorizes the BND 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 2013 or 2012. There was one Envest loan made during 2011 totaling $100 that was not eligible for interest buydown 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 statement of net position, statements of revenues, expenses, and changes in fund net position, and statements of cash flows. The statement of net position provides readers the assets and liabilities of the Fund, with the differences between the two reported as net position. The 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.

(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2013, 2012 AND 2011

	2013	2012	2011
CURRENT ASSETS			
Cash deposits	**$ 3,322**	$ 3,981	$ 10,100
Prepaid interest and interest receivable	**1,737**	1,431	1,385
Total current assets	**5,059**	5,412	11,485
NONCURRENT ASSETS			
Prepaid interest	**3,097**	3,597	3,029
Total noncurrent assets	**3,097**	3,597	3,029
DEFERRED OUTFLOWS OF RESOURCES	**-**	-	-
Total assets and deferred outflows	**$ 8,156**	$ 9,009	$ 14,514
LIABILITIES	**$ -**	$ -	$ -
DEFERRED INFLOWS OF RESOURCES	**-**	-	-
NET POSITION - UNRESTRICTED	**8,156**	9,009	14,514
Total liabilities, deferred inflows and net position	**$ 8,156**	$ 9,009	$ 14,514

Loans

The loan portfolio was sold to Bank of North Dakota in July 2011.

Net Position

At December 31, 2013, 2012 and 2011, net position was $8,156, $9,009 and $14,514, respectively. The decrease in net position from 2012 to 2013 was due to an operating loss of $1,755 and net transfer in of $900. 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 $1,510 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, 2013, 2012 AND 2011

		(In Thousands)	
	2013	2012	2011
OPERATING REVENUES	**$ -**	$ -	$ 138
OPERATING EXPENSES	**1,755**	1,510	726
OPERATING LOSS	**(1,755)**	(1,510)	(588)
NONOPERATING REVENUES	**2**	5	9
LOSS BEFORE TRANSFERS	**(1,753)**	(1,505)	(579)
TRANSFERS	**900**	(4,000)	1,400
CHANGE IN NET POSITION	**(853)**	(5,505)	821
TOTAL NET POSITION, BEGINNING OF YEAR	**9,009**	14,514	13,693
TOTAL NET POSITION, END OF YEAR	**$ 8,156**	$ 9,009	$ 14,514

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 2013 and 2012.

Expenses

Buy down interest is paid to the banks that participate in the various programs of the Fund. The BND 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 $853 or 9.5% for the year ended December 31, 2013; decreased $5,505 or 37.9% for the year ended December 31, 2012; and increased $821 or 6.0% for the year ended December 31, 2011.

ECONOMIC CONDITION AND OUTLOOK:

Farm commodity prices have softened from levels of past years. Some North Dakota farm asset values are expected to show a slower growth rate than historic increases of the last number of years. Short term interest rates remain low and are forecasted to remain at or near current levels for 2014.

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
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	2013	2012
ASSETS		
Current Assets		
Cash deposits at the Bank of North Dakota	**$ 3,322**	$ 3,981
Prepaid interest, current portion	**1,737**	1,431
Total current assets	**5,059**	5,412
Noncurrent Assets		
Prepaid interest	**3,097**	3,597
Total noncurrent assets	**3,097**	3,597
DEFERRED OUTFLOWS OF RESOURCES	**-**	-
Total assets and deferred outflows	**$ 8,156**	$ 9,009
LIABILITIES	**$ -**	$ -
DEFERRED INFLOWS OF RESOURCES	**-**	-
NET POSITION		
Unrestricted	**8,156**	9,009
Total liabilities, deferred inflows and net position	**$ 8,156**	$ 9,009

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	2013	2012
OPERATING REVENUES	$ -	$ -
OPERATING EXPENSES		
Buy-down interest	1,750	1,504
Other expenses	5	6
	1,755	1,510
OPERATING LOSS	(1,755)	(1,510)
NONOPERATING REVENUES		
Investment income	2	5
LOSS BEFORE TRANSFERS	(1,753)	(1,505)
TRANSFERS		
Transfer from Bank of North Dakota	1,200	-
Transfer to Ag Pace Loan Program	-	(4,000)
Transfer to Flex Place Loan Program	(300)	-
CHANGE IN NET POSITION	(853)	(5,505)
TOTAL NET POSITION, BEGINNING OF YEAR	9,009	14,514
TOTAL NET POSITION, END OF YEAR	$ 8,156	$ 9,009

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Dollars in Thousands)

	2013	2012
OPERATING ACTIVITIES		
Payment of buy-down interest to lenders	**$ (1,556)**	$ (2,118)
Payment of other expenses	**(5)**	(6)
NET CASH USED FOR OPERATING ACTIVITIES	**(1,561)**	(2,124)
NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Ag Pace Loan Program	**-**	(4,000)
Transfer to Flex Pace Loan Program	**(300)**	-
Transfer from Bank of North Dakota	**1,200**	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	**900**	(4,000)
INVESTING ACTIVITIES		
Investment income received	**2**	5
NET CASH PROVIDED BY INVESTING ACTIVITIES	**2**	5
NET CHANGE IN CASH	**(659)**	(6,119)
CASH, BEGINNING OF YEAR	**3,981**	10,100
CASH, END OF YEAR	**$ 3,322**	$ 3,981
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	**$ (1,755)**	$ (1,510)
Adjustments to reconcile operating loss to net cash used for operating activities		
Increase (decrease) in prepaid interest	**194**	(614)
NET CASH USED FOR OPERATING ACTIVITIES	**$ (1,561)**	$ (2,124)

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 (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, to $400 in 2009, and to $500 in 2013. The borrower is restricted to a lifetime cap of $500 under this program. The term of the loan may not exceed 30 years. The interest rate will be fixed at 1% below the Bank of North Dakota's (BND) current base rate for the first five years of the loan with maximum interest rate of 6% and variable at 1% below the BND'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 BND's base rate.

Interest Buy Downs on Real Estate Loans
The BND 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 and from $400 to $500 in 2013. The borrower is restricted to a lifetime cap of $500 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 BND's current base rate for the first five years of the loan with maximum interest rate of 6% and variable at 1% below the BND'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 2% over the Bank of North Dakota's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy downs funds, to the extent they are available, are used to reduce the lead lender's rate by 4% 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 2013 or 2012.

Reporting Entity

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

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted 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 statements of net position. 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.

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, 2013 and 2012 was $3,322 and $3,981, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

(Dollars in Thousands)

NOTE 3 - 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:

	2013	2012
Prepaid interest, current portion	**$ 1,737**	$ 1,431
Prepaid interest, noncurrent portion	**3,097**	3,597
Total prepaid interest	**$ 4,834**	$ 5,028

Changes in the balances of prepaid interest follow:

	Real Estate Loans (BND)	Chattel Loans (Other Banks)	Envest Loans	Total Prepaid Interest
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
Additions, net of returns	1,193	363	-	1,556
Amortization	(1,165)	(581)	(4)	(1,750)
Balance, December 31, 2013	$ 3,169	$ 1,661	$ 4	$ 4,834

The prepaid interest at the Bank of North Dakota is being utilized to buydown the interest rate on 316 loans with outstanding principal balances of $60,732 as of December 31, 2013 and 321 loans with a balance of $56,968 as of December 31, 2012. 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 4 - RELATED PARTY TRANSACTIONS

During 2013, $1,200 was transferred in from the Bank of North Dakota's undivided profits and $300 was transferred out to the Flex Pace Loan Program. During 2012, $4,000 was transferred to the Ag Pace Loan Program.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. 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 sheet (See Note 3).

NOTE 5 - 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.

NOTE 6 – NEW PRONOUNCEMENTS

The Fund implemented the following new pronouncements during the year ended December 31, 2013:

GASB Statements No. 61, *The Financial Reporting Entity: Omnibus* was effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* was effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as expenses or revenues, such as debt issuance costs, fees and costs associated with mortgage banking activities, lending activities and loan purchases. The implementation of GASB 65 had no effect on the financial statements of the Fund.

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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 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, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated February 27, 2014.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of Audit Findings, Recommendations and Agency's Responses, as item 2013-A, that we consider to be a significant deficiency.

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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*.

Beginning Farmer Revolving Loan Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in the accompanying schedule of Audit Findings, Recommendations and Agency's Responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
February 27, 2014

2013-A - Core Access to the IT System

Significant Deficiency

Condition: During the course of our engagement, we noted that there are five employees with an unlimited, Administrator Access to all applications in the entity's core IT system, Fiserv, and there is no means of tracking changes made under this user access identification.

Criteria: A good system of internal controls over the IT system contemplates an adequate system for monitoring and tracking user access to various systems, including its core accounting system, Fiserv.

Cause: It was noted that a user identification for Department 99 called "Admin All" is being used by five IT employees.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: Management should assign individual user IDs so that changes can be tracked by user, limit the assignment of the "Admin All" user ID, and implement monitoring mechanisms as deemed appropriate.

Management's Response: IT Application Support access to the Fiserv system is currently undergoing modification with the intent to eliminate the access via the Admin-Full account. Each Application Support staff member will have an individual account setup within Navigator. Application Support staff will utilize these credentials for day-to-day support and any future upgrades. Credentials for the Admin-Full account will be modified and retained by BND IT Security. If Application Support is unable to perform job functions with their current level of access, security access should be reviewed and modified accordingly. In the event of an emergency where access is not adequate, the Admin-Full credentials will be provided and a change control will be submitted outlining the need for the credentials and the tasks performed. Post-Implementation tasks will include: contact BND IT Security to change Admin-Full credentials and assess security access changes to Application Support accounts. A procedure will be drafted outlining control mechanisms and monitoring responsibilities. Estimated completion date is 04/30/2014.

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Exhibit A-3

Beginning Farmer Revolving Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee
Year Ended December 31, 2013

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 statues, laws, rules, regulations under which the agency was created and is functioning?

   Yes

3. Was internal control adequate and functioning effectively?

   Yes, except a significant deficiency was identified due to unlimited access for certain users in the entity's core IT system.

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

   No

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

   There were no prior year findings or recommendations

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

   No

Audit Committee Communications:

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

   None

2. Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

   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 significant difficulties encountered in performing the audit.

   None

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

   None

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

   None

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

   Based on the audit procedures performed, the Fund's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application, except for the significant deficiency identified above, that noted unlimited administrator access to Fiserv for certain users.

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

Aberdeen, South Dakota
February 27, 2014

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, 2013. 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 December 18, 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 Beginning Farmer Revolving Loan Fund are described in Note 1 to the financial statements. During 2013, Beginning Farmer Revolving Loan Fund implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus* and *GASB* Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, which did not have a significant effect on financial reporting. No other new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit 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 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. There were no corrected or uncorrected misstatements.

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 February 27, 2014.

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 governmental unit'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 governmental unit'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, Legislative Audit and Fiscal Review Committee, Bank of North Dakota Advisory Board and management of the Fund, and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
February 27, 2014