FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

AND

STATEMENT OF APPROPRIATED EXPENDITURES
YEAR ENDED JUNE 30, 2013

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Bank of North Dakota, 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 Bank of North Dakota'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 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 entity'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 entity'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bank of North Dakota as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, the Bank of North Dakota adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* As discussed in Note 1 to the financial statements, the Bank of North Dakota has retroactively restated the previously reported 2012 financial statements to account for loan fees and costs in accordance with this Statement. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1, the financial statements of the Bank of North Dakota 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 Bank of North Dakota. 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.

Financial Statement Presentation

As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

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 4 through 11 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 of 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bank of North Dakota's financial statements. The schedules of appropriated expenditures are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular *A-133, Audits of States, Local Governments, and Non-Profit Organization,* and is also not a required part of the financial statements.

The schedules of appropriated expenditures and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of appropriated expenditures and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 25, 2014 on our consideration of the Bank of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Bank of North Dakota internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
March 25, 2014

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar year ended December 31, 2013 and comparative data for 2012 and 2011. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

On an aggregate basis, the loan portfolio grew by $199,000 or 6.2% to $3,417,000 at December 31, 2013. In 2012 and 2011, the loan portfolio grew by $285,000 or 9.7% and $174,000 or 6.3%, respectively.

Total assets grew by $720,000 or 11.7% to $6,865,000. The increase was attributable to continued growth in state deposits and liquidity of banks investing at the Bank.

The tier one leverage ratio is 8.42% compared to 7.59% and 7.70% the prior two years. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the statements of net position, statements of revenues, expenses and changes in fund net position, and statements of cash flows. The statement of net position provides the basis for computing rate of return, evaluating the net position of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in fund net position identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also 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
DECEMBER 31, 2013, 2012 AND 2011

	2013	(Restated) 2012	(Restated) 2011
ASSETS			
Cash and cash equivalents	**$ 776,444**	$ 697,620	$ 1,369,370
Interest receivable	**39,599**	40,102	39,479
Securities	**2,584,169**	2,171,546	1,008,051
Loans, net	**3,416,889**	3,217,734	2,931,599
Other assets	**36,824**	6,798	3,736
Capital assets, net	**11,197**	11,637	12,166
Total assets	**6,865,122**	6,145,437	5,364,401
DEFERRED OUTFLOWS OF RESOURCES	**-**	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 6,865,122**	$ 6,145,437	$ 5,364,401
LIABILITIES			
Federal funds purchased and repurchase agreements	**$ 245,110**	$ 275,960	$ 318,325
Non-interest bearing deposits	**798,559**	891,197	649,922
Interest bearing deposits	**4,802,568**	4,112,365	3,529,915
Interest payable	**1,003**	1,156	1,840
Transfers payable	**-**	43	86
Other liabilities	**7,624**	3,923	3,660
Short and long-term debt	**465,961**	406,252	471,422
Total liabilities	**6,320,825**	5,690,896	4,975,170
DEFERRED INFLOWS OF RESOURCES	**-**	-	-
NET POSITION			
Invested in capital assets	**11,197**	11,637	12,166
Restricted for pledging purposes	**188,363**	227,652	183,430
Unrestricted	**344,737**	215,252	193,635
Total net position	**544,297**	454,541	389,231
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 6,865,122**	$ 6,145,437	$ 5,364,401

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Securities

Securities totaled $2,584,000 at December 31, 2013 compared to $2,172,000 at December 31, 2012 and $1,008,000 at December 31, 2011. The increase is related to the bank's overall growth. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

Loans

On an aggregate basis, the loan portfolio increased by $199,000, or 6.2%, to $3,417,000 at year-end 2013 from $3,218,000 at year-end 2012. There are four major categories of loans at the Bank.

> Student loans increased by $34,500 in 2013 compared to increases of $2,600 in 2012 and $19,200 in 2011. In 2013, new student loans totaled $113,400 and new consolidation loans were $35,400. Decreases were from $114,300 in loan payments including loans paid in full through consolidation. In 2012, new student loans totaled $100,200 and new consolidation loans were $17,400. Decreases were from $115,000 in loan payments including loans paid in full through consolidation. In 2011, new student loans totaled $92,500 and new consolidation loans were $11,200. Decreases were from $84,500 in loan payments including loans paid in full through consolidation.

> Residential loans increased by $35,400 in 2013, $19,500 in 2012 and $103,600 in 2011. New and refinanced loans made in 2013, 2012 and 2011 totaled $165,200, $147,300 and $193,900, respectively, while normal loan payments and refinancing payoffs were $129,800, $127,800 and $90,300, respectively.

> Commercial loans increased by $109,700 in 2013 compared to increasing by $209,800 in 2012 and by $46,600 in 2011.

> Farm loans increased by $18,900 in 2013 compared to an increase of $53,800 in 2012 and $12,300 in 2011.

Loan Delinquencies and Allowance for Loans Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming and interest is no longer accrued on the loan.

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The allowance for credit losses are established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for credit losses for adequacy on a monthly basis. As of December 31, 2013, 47% of the overall loan portfolio is federally guaranteed compared to 48% at December 31, 2012 and 52% at December 31, 2011. The following sets forth certain information with respect to the Bank's loan loss experience:

	2013	(Restated) 2012	(Restated) 2011
Gross loans at end of year	**$ 3,468,659**	$ 3,270,014	$ 2,984,329
Allowance for loan losses			
Balance, beginning of year	**$ 52,280**	$ 52,883	$ 46,613
Provision charged to operations	**-**	2,000	11,000
Loans charged off	**(2,589)**	(2,980)	(4,805)
Recoveries	**2,079**	377	75
Balance, end of year	**$ 51,770**	$ 52,280	$ 52,883
Net loan charge-offs to total loans at the end of period	**0.01%**	0.08%	0.16%
Net loan charge-offs to non-guaranteed loans at the end of period	**0.03%**	0.15%	0.33%
Allowance at end of period to total loans at end of period	**1.49%**	1.60%	1.77%
Allowance at end of period to non-guaranteed loans at the end of period	**2.80%**	3.08%	3.69%

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Federal Funds Purchased and Repurchase Agreements

Short-term borrowings were $245,100 at December 31, 2013 compared to $276,000 at December 31, 2012 and $318,300 at December 31, 2011. Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank and customer investments in repurchase agreements with the Bank.

Deposits

Noninterest bearing deposits are $798,600 at December 31, 2013 compared to $891,200 at December 31, 2012 and $649,900 at December 31, 2011. Noninterest bearing deposits are primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $4,802,600 at December 31, 2013 compared to $4,112,400 at December 31, 2012 and $3,529,900 at December 31, 2011. This increase is from state deposits related to the growing economic base of the state.

Net Position

The Bank has a tier one capital leverage ratio of 8.42%, 7.59% and 7.70% as of December 31, 2013, 2012 and 2011, respectively. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event is the Bank's net position to be reduced below $175,000.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period and simulation modeling which produces projections of net interest income under various interest rate scenarios and statement of net position strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

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CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	2013	(Restated) 2012	(Restated) 2011
INTEREST INCOME	**$ 147,909**	$ 154,699	$ 139,674
INTEREST EXPENSE	**30,217**	35,349	38,865
NET INTEREST INCOME	**117,692**	119,350	100,809
Provision for loan losses	**-**	2,000	11,000
NET INTEREST INCOME AFTER PROVISION	**117,692**	117,350	89,809
Noninterest income	**(2,408)**	8,543	9,070
Noninterest expense	**36,172**	31,586	22,170
INCOME BEFORE TRANSFERS	**79,112**	94,307	76,709
TRANSFERS IN	**30,000**	-	-
TRANSFERS OUT	**(19,356)**	(28,997)	(2,815)
NET TRANSFERS	**10,644**	(28,997)	(2,815)
CHANGE IN NET POSITION	**89,756**	65,310	73,894
NET POSITION - BEGINNING	**454,541**	389,231	315,337
NET POSITION - ENDING	**$ 544,297**	$ 454,541	$ 389,231

Earnings Summary

The Bank's income before transfers was $79,100 in 2013 compared to $94,300 in 2012, a decrease of 16.0%. This was mainly attributable to a decrease in net interest income and a net decrease in the fair value of securities.

Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Average earning assets grew from $5,405,000 to $6,247,700 to at December 31, 2013 with a decrease in interest margin**.**

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The following table shows the average rates earned and paid for 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
Annualized average interest rate earned			
Federal funds sold	**0.29%**	0.29%	0.25%
Securities	**0.48%**	0.87%	1.81%
Loans	**4.05%**	4.21%	4.27%
Weighted average interest rates earned	**2.37%**	2.73%	3.03%
Annualized average interest rate paid			
Deposits	**0.29%**	0.42%	0.63%
Federal funds purchased and repurchase agreements	**0.13%**	0.13%	0.13%
Short and long-term debt	**3.35%**	4.19%	4.66%
Weighted average interest rates paid	**0.56%**	0.77%	1.03%
Net interest spread	**1.81%**	1.95%	2.00%
Net interest margin	**1.88%**	2.07%	2.17%

Provision for Loan Losses

The provision for loan losses was $0 in 2013, $2,000 in 2012 and $11,000 in 2011. During 2012, the Bank made revisions to its allowance for credit loss methodology that recognized an overall lower allowance need requirement primarily in the commercial and farm loan portfolios. As a result, the Bank's overall loan loss provision was reduced during 2013 and 2012 from higher amounts recorded during 2011.

Noninterest Income

Overall, noninterest income decreased by $11,000 in 2013. This decrease was entirely a result of a decrease in the fair value of securities.

Noninterest Expense

Noninterest expense increased by $4,600, or 14.5%. The increase in noninterest expense is primarily related to two noninterest expense categories. Salaries and benefits were increased for approved legislative increases and other needed increases. Increases in other operating expenses related to a payment to the North Dakota State Investment Board.

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SHORT AND LONG-TERM DEBT

There was no short-term Federal Home Loan Bank (FHLB) debt as of December 31, 2013, 2012 or 2011. FHLB long-term debt is $465,200 at December 31, 2013 compared to $405,300 at December 31, 2012 and $470,300 at December 31, 2011. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans. (See Note 10 to the financial statements.)

CAPITAL ASSETS

Bank of North Dakota has $11,200 in bank premises, equipment, and software. Capital expenditures totaled $322 in 2013 compared to $368 in 2012 and $780 in 2011. This year's expenditures were related to software purchases as well as upgrades to our security system. (See Note 7 to the financial statements.)

ECONOMIC CONDITION AND OUTLOOK

Moody's Analytics recently completed an analysis of the North Dakota economy for its *Précis U.S. State* October 2013 publication. The report depicts a strong, growing economy, leading the nation in several areas. North Dakota's state gross domestic product (GDP), the value of goods and services produced in the state, has grown by 35 percent from 2008 through 2012. In sharp contrast, GDP nationally has grown by only around 4 percent during that time. Moody's predicts that North Dakota's GDP will continue to outpace the nation over the next several years.

The high level of economic activity, combined with an extremely low unemployment rate, has led to growth in the state's population. As the number of jobs has increased, so has the labor force as potential workers migrate from states with much weaker labor markets. From 2008 through 2012, employment in North Dakota grew by over 17 percent; nationally, it has declined by over 2 percent during that time.

Moody's concludes that "North Dakota is in an enviable position and will outperform the U.S. for the next several years thanks to its booming energy industry. High prices and new technologies will support energy production, accompanied by growth in auxiliary industries throughout the state."

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to visit the Bank for information, the physical address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	(Restated) 2012
ASSETS		
Cash and due from banks		
Restricted	**$ 71,228**	$ 71,472
Unrestricted	**668,571**	602,098
Federal funds sold	**36,645**	24,050
Cash and cash equivalents	**776,444**	697,620
Interest receivable		
Due from other funds	**117**	477
Other	**39,482**	39,625
	39,599	40,102
Securities		
Restricted	**25,995**	24,488
Unrestricted	**2,558,174**	2,147,058
	2,584,169	2,171,546
Loans		
Restricted	**556,368**	537,031
Unrestricted	**2,912,291**	2,732,983
Less allowance for loan losses	**(51,770)**	(52,280)
	3,416,889	3,217,734
Other assets		
Due from other funds	**32,749**	598
Other	**4,075**	6,200
	36,824	6,798
Capital assets		
Land	**1,688**	1,688
Building and equipment, net	**8,965**	9,218
Intangibles, net	**544**	731
	11,197	11,637
Total assets	**6,865,122**	6,145,437
DEFERRED OUTFLOWS OF RESOURCES	**-**	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 6,865,122**	$ 6,145,437

STATEMENTS OF NET POSITION – PAGE 2

	2013	(Restated) 2012
LIABILITIES		
Federal funds purchased	**$ 245,110**	$ 275,960
Deposits		
Non-interest bearing	**705,070**	840,382
Non-interest bearing - of other funds	**93,489**	50,815
Interest bearing	**131,934**	108,638
Interest bearing - of other funds	**4,670,634**	4,003,727
	5,601,127	5,003,562
Interest payable		
Due to other funds	**942**	1,063
Other	**61**	93
	1,003	1,156
Transfers payable	**-**	43
Other liabilities		
Due to other funds	**4,004**	369
Other	**3,620**	3,554
	7,624	3,923
Short and long-term debt		
Current portion	**3,417**	3,291
Long-term portion	**462,544**	402,961
	465,961	406,252
Total liabilities	**6,320,825**	5,690,896
DEFERRED INFLOWS OF RESOURCES	**-**	-
NET POSITION		
Invested in capital assets	**11,197**	11,637
Restricted for pledging purposes	**188,363**	227,652
Unrestricted	**344,737**	215,252
Total net position	**544,297**	454,541
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 6,865,122**	$ 6,145,437

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	(Restated) 2012
INTEREST INCOME		
Federal funds sold	**$ 211**	$ 178
Securities	**13,091**	24,013
Loans	**134,607**	130,508
Total interest income	**147,909**	154,699
INTEREST EXPENSE		
Deposits	**13,517**	16,572
Federal funds purchased and repurchase agreements	**326**	287
Short and long-term debt	**16,374**	18,490
Total interest expense	**30,217**	35,349
NET INTEREST INCOME	**117,692**	119,350
PROVISION FOR LOAN LOSSES	**-**	2,000
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	**117,692**	117,350
NONINTEREST INCOME		
Service fees and other	**7,639**	7,932
Net increase/(decrease) in the fair value of securities	**(10,047)**	611
Total noninterest income	**(2,408)**	8,543
NONINTEREST EXPENSE		
Salaries and benefits	**13,121**	12,060
Data processing	**4,484**	4,001
Occupancy and equipment	**862**	874
Long-term debt prepayment fee	**9,382**	8,962
Other operating expenses	**8,323**	5,689
Total noninterest expenses	**36,172**	31,586
INCOME BEFORE TRANSFERS	**79,112**	94,307
TRANSFERS		
Transfers in	**30,000**	-
Transfers out	**(19,356)**	(28,997)
Net transfers	**10,644**	(28,997)
CHANGE IN NET POSITION	**89,756**	65,310
TOTAL NET POSITION - BEGINNING OF YEAR	**454,541**	389,231
TOTAL NET POSITION - END OF YEAR	**$ 544,297**	$ 454,541

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	(Restated) 2012
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	**$ 4,375**	$ 4,485
Receipt of service fees and other income from other entities	**2,987**	3,314
Payment of salaries and benefits	**(13,096)**	(12,001)
Payment of data processing expenses	**(4,578)**	(2,831)
Payment of occupancy and equipment	**(426)**	(392)
Payment of other operating expenses	**(15,435)**	(16,011)
NET CASH USED FOR OPERATING ACTIVITIES	**(26,173)**	(23,436)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase/(decrease) in non-interest bearing deposits	**(92,638)**	241,275
Net increase in interest bearing deposits	**690,203**	582,449
Interest payments on deposits	**(13,669)**	(17,253)
Net decrease in federal fund purchased and repurchase agreements	**(30,850)**	(42,365)
Interest payments on federal funds purchased and repurchase agreements	**(326)**	(288)
Proceeds from issuance of short and long-term debt	**1,795,000**	53,000
Payment of short and long-term debt	**(1,735,292)**	(118,170)
Interest payments on short and long-term debt	**(16,376)**	(18,492)
Payment of transfers	**(19,399)**	(29,040)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	**576,653**	651,116
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	**(322)**	(368)
INVESTING ACTIVITIES		
Purchase of securities	**(876,555)**	(1,557,662)
Proceeds from sales, maturities, and principal repayments of securities	**453,882**	394,779
Investment income received	**12,432**	22,429
Proceeds from sales of loans	**12,187**	17,311
Net increase in loans	**(211,563)**	(306,447)
Loan income received	**135,981**	130,096
Proceeds from sale of other real estate and property owned	**2,302**	432
NET CASH USED FOR INVESTING ACTIVITIES	**(471,334)**	(1,299,062)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**78,824**	(671,750)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**697,620**	1,369,370
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 776,444**	$ 697,620

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS – PAGE 2

	2013	(Restated) 2012
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income before operating transfers	**$ 79,112**	$ 94,307
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**760**	883
Provision for loan losses	**-**	2,000
Gain on sale of loans	**(173)**	(214)
Gain on sale of other real estate and property owned	**(145)**	(35)
Loss on retirement of fixed assets	**1**	14
Net (increase)/decrease in the fair value of securities	**10,047**	(611)
Reclassification of interest income and expense to other activities	**(117,692)**	(119,350)
(Increase)/decrease in other assets	**367**	(1,373)
(Increase)/decrease in due from other funds	**(2,151)**	37
Increase in due to other funds	**3,635**	227
Increase in other liabilities	**66**	679
NET CASH USED FOR OPERATING ACTIVITIES	**$ (26,173)**	$ (23,436)
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS		
Transfers from net position to transfers payable	**$ (10,644)**	$ 28,997
Transfer from Rebuilders Loan Program	**30,000**	-

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (Bank) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. The Bank is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. The Bank is a participation lender; the vast majority of its loans are made in tandem with financial institutions throughout the State of North Dakota. The Bank's primary deposit products are interest-bearing accounts for state and political subdivisions.

Reporting Entity

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

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

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the statement of net position of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

The Bank's Statements of Revenues, Expenses and Changes in Fund Net Position are presented in a format consistent with industry practice for financial institutions. Operating revenues are those revenues that are generated from the primary operations of the Bank, which include interest and noninterest income. Operating expenses are those expenses that are essential to the primary operations of the Bank, which include interest and noninterest expenses. All other revenues and expenses are reported as non-operating.

Fund Accounting

The Bank 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.

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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 for 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 (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. 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 presents the cash flows for operating activities, non-capital financing activities, capital and related 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 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

Most of the Bank's lending activities are with customers within the state of North Dakota. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2013 and 2012:

	2013	2012
Commercial loans, of which 3% and 4% are federally guaranteed	**40%**	40%
Student loans, of which 97% and 97% are guaranteed	**32%**	32%
Residential loans, of which 80% and 83% are federally guaranteed	**18%**	18%
Agricultural loans, of which 5% and 5% are federally guaranteed	**10%**	10%
	100%	100%

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of three months or less.

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Securities

Investments in debt and equity securities with readily determinable fair values are carried at market value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses due to fluctuations in market value are included in noninterest income. Investments in other equity securities that do not have readily determinable market values are reported at cost, provided there has not been an other than temporary impairment in that value.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date in noninterest income and are determined using the specific identification method.

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4.40% of total FHLB advances. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

Nonmarketable equity securities represent venture capital equity securities that are not publicly traded. The Bank reviews these assets at least annually for possible other-than-temporary impairment. These securities do not have a readily determinable fair value and are stated at cost. The Bank reduces the asset value when it considers declines in value to be other than temporary. The Bank recognizes any estimated loss as a loss from equity securities in noninterest income.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Future payments are generally applied against principal until the loan balance is at zero. Any further payments are then recorded as interest income on the cash basis. Loans can be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Allowance for Credit Losses

The Bank uses the allowance method in providing for credit losses. Accordingly, the allowance is increased by the current year's provision for credit losses charged to operations and reduced by net charge-offs. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institution and bank stock loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential loans for impairment disclosures, except for such loans that are placed on nonaccrual.

Loan Charge-Offs

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- An unsecured loan that has principal or interest 120 or more days past due.
- A loan secured by a commercial real estate mortgage, farm real estate mortgage, conventional real estate mortgage, or by other than real property that has principal or interest 120 or more days past due.

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- A loan classified as a "loss" by the North Dakota Department of Banking and Financial Institutions.
- A loan where there is a recognized loss in conjunction with the acquisition of real estate by the Bank.
- A loan where the Bank deems itself insecure due to the financial condition of the borrower.
- A loan or portion of a loan has been forgiven.

Credit Related Financial Instruments

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Capital Assets

Capital assets, which include intangibles (software), are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5 (for software that is internally developed, the threshold is $50) or more are capitalized and reported in the accompanying financial statements. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $824 and $2,582 as of December 31, 2013 and 2012, respectively.

Compensated Absences Payable

<u>Annual Leave</u>: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at December 31 of each year. Employees are paid for unused annual leave upon termination or retirement.

<u>Sick Leave:</u> Bank employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

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The Bank’s liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank’s appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

Restricted Assets and Restricted Net Position

Certain Bank assets and net position carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not subject to federal or state income taxes.

New GAAP Implementation

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

GASB Statement 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.

GASB Statement 65 specifically changes the reporting of and recognition for the loan fees collected or paid by the Bank. Previously, loan fees collected related to certain commercial and agriculture loans were reported as deferred contra assets and recognized over the life of the loan. Under the new requirements, these fees will be recognized as revenue when received. Also previously, student loan fees that were paid to the U.S. Department of Education or the North Dakota Guaranteed Student Loan Program were reported as deferred assets and expensed over the estimated life of an average loan (10 years) using the straight line method. These fees will now be recognized as a decrease to interest income when the loan is disbursed. Student loan fees received from borrowers were previously reported as deferred liabilities and recognized as revenue over the estimated life of an average loan (10 years) using the straight line method. Under the new requirements, these fees will be recognized as revenue when the loan is disbursed.

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The financial statements for fiscal year ended December 31, 2012 have been restated to adjust the activity related to these loan fees. Beginning net position has been decreased by $10,672 to a balance of $389,231 for the recognition of the deferred loan fee assets and liability from December 31, 2011. In addition, the deferred loan fees and interest income previously reported for the year ended December 31, 2012 have been adjusted to reflect this change. The following financial statement line items for the fiscal year 2012 were affected by the change in accounting principle:

STATEMENTS OF NET POSITION DECEMBER 31, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Loans-unrestricted	$ 2,742,747	$ 2,732,983	$ (9,764)
Total loans	3,227,498	3,217,734	(9,764)
Total assets	6,155,201	6,145,437	(9,764)
Other liabilities-other	4,197	3,554	(643)
Total other liabilities	4,566	3,923	(643)
Total liabilities	5,691,539	5,690,896	(643)
Net position-unrestricted	224,373	215,252	(9,121)
Total net position	463,662	454,541	(9,121)
Total liabilities and net position	6,155,201	6,145,437	(9,764)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION DECEMBER 31, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Interest income-loans	$ 128,957	$ 130,508	$ 1,551
Total interest income	153,148	154,699	1,551
Net interest income	117,799	119,350	1,551
Income before transfers	92,756	94,307	1,551
Change in net position	63,759	65,310	1,551
Total net position, beginning of year	399,903	389,231	(10,672)
Total net position, end of year	463,662	454,541	(9,121)

STATEMENTS OF CASH FLOWS DECEMBER 31, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Income before operating transfers	$ 92,756	$ 94,307	$ 1,551
Reclassification of interest income and expense to other activities	(117,799)	(119,350)	(1,551)

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Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 50, *Pension Disclosures*, as they relate to government employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes accounting guidance for employers participating in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans and defined contribution plans. The statement also addresses note disclosure and required supplementary information for employers whose employees are provided with defined benefit pensions through trusts. GASB 27 and 50 will remain applicable to employers whose pensions are not covered by the scope of this new statement.

Under the new statements, a cost-sharing employer whose employees receive pensions through a trust will report a net pension asset or liability, deferred outflows or inflows of resources related to pensions and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. The share of collective net pension liability recognized by an individual employer should be based on the employer’s relationship to all employers and non-employer contributing entities in the plan. The employer’s proportion should be consistent with how contributions are determined; the use of the long-term contribution effort of the employer is encouraged. The measurement of collective net pension liability, pension expense and other key information will follow the same standards that apply to single and agent employers. The effects of changes to an employer’s expected proportion of total employer-related contributions—as well as the effects of differences between the expected and actual proportionate share of total employer-related contributions each period—will be reported as a deferred outflow or inflow of resources and recognized in the employer’s pension expense in a systematic and rational manner over a closed period representative of the average expected remaining service lives of employees, beginning with the period of adoption. Under the current standards, governments recognize only the portion of cost-sharing pension obligations related to their annual required contributions.

GASB 68 will be effective for fiscal years beginning after June 15, 2014, with earlier application is encouraged. The Bank is currently evaluating the impact this statement will have on financial reporting.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average reserve balances maintained at the Federal Reserve Bank were approximately $93,158 in 2013 and $62,835 in 2011.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. On other significant depository relationships the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

The following summary presents the amount of the Bank's deposits as of December 31, 2013 and 2012:

	2013	2012
Covered by depository insurance		
Due from banks	**$ 1,017**	$ 957
Uncollateralized		
Due from banks	**446,141**	304,798
Federal funds sold	**36,645**	24,050
Total bank balances	**$ 483,803**	$ 329,805

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, capital stock of government sponsored agencies, and venture capital.

The composition of the investment portfolio, related credit quality rating, custody, and duration as of December 31, 2013 and 2012, is provided below:

	Rating *	Custody	Duration (In Years)	**2013**	2012
Mortgage-backed	Aaa	(1) & (2)	4.35	**$ 621,305**	$ 599,375
Federal agency	Aaa	(1) & (2)	1.77	**1,912,672**	1,519,887
State and municipal	Not rated	(2) & (3)	2.98	**20,328**	23,637
Federal Home Loan Bank	Not rated	(4)	N/A	**25,995**	24,488
Other equity securities	Not rated	(3)	N/A	**3,869**	4,159
				$ 2,584,169	$ 2,171,546

* The credit quality rating indicated above is based on Moody's Investors Service.

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Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) These are held by a DTC correspondent.
(3) Registered in the name of the Bank and held in the Bank's vault.
(4) Not registered and held at FHLB.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to five years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 2.4 years as of December 31, 2013.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's (1)	S & P (2)	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

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Investments in any one issuer that represent 5% or more of total investments as of December 31, 2013, are as follows:

	Amount	Percent
Federal agency		
Freddie Mac	$ 603,507	23.4%
Fannie Mae	566,938	21.9%
Federal Home Loan Bank	529,960	20.5%
Mortgage-backed		
Fannie Mae	332,118	12.9%
Freddie Mac	211,854	8.2%
Federal Home Loan Bank stock	25,995	1.0%
Others less than 5%	313,797	12.1%
	$ 2,584,169	100.0%

There were no securities pledged as of December 31, 2013 and 2012 for repurchase agreements or for other required pledging purposes. FHLB stock totaling $25,995 at December 31, 2013 and $24,888 at December 31, 2012 is pledged on the FHLB advances (Note 10).

The maturity distribution of debt securities at December 31, 2013, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations. Federal Home Loan Bank stock and other equity securities are not included in the following maturity distribution.

Within one year	$ 700,061
Over one year through five years	1,794,656
Over five years through ten years	58,588
Over ten years	1,000
	$ 2,554,305

For the year ended December 31, 2013, proceeds from the sales of securities amounted to $14,296. For the year ended December 31, 2012, proceeds from the sales of securities amounted to $7,678.

NOTE 4 - INTERFUND TRANSACTIONS

The Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. All state funds and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

See Note 6 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

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Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $545,723 and $443,413 at December 31 2013 and 2012, respectively. Administrative fees paid by the Bank to the North Dakota Guaranteed Student Loan Program were $416 and $785 for the years ended December 31, 2013 and 2012, respectively.

In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans were held by the Bank at December 31, 2013 and 2012 amounted to $8,954 and 7,994, respectively. Deposits and short term borrowings held by the Bank were $68,494 and $52,860, respectively.

The Bank also made transfers to the Rebuilders Loan Program to fund loans to owners of homes damaged in the 2011 floods. These funds will be repaid to the Bank as payments are received from the borrowers. At year end December 31, 2013 the Bank had a receivable from this program for $32,255 and a payable of $3,791.

	2013	2012
LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5		
OTHER ASSETS - Due from other funds (accounts receivable - current, unless noted otherwise)		
Rebuilders Loan Program (non-current)	**$ 32,255**	$ -
North Dakota Guaranteed Student Loan Program	**230**	250
North Dakota Student Loan Trust	**131**	158
Community Water Facility Loan Fund	**20**	21
Department of Human Services	**9**	9
Information Technology Department	**11**	6
Board of University and School Lands	**93**	154
	$ 32,749	$ 598
OTHER LIABILITIES - Due to other funds (trade accounts payable - all current)		
Rebuilders Loan Program	**$ 3,791**	$ -
Information Technology Department	**168**	361
Attorney General	**45**	8
	$ 4,004	$ 369

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OPERATING TRANSFERS - Out				
Rebuilders Loan Program	**$**	**-**	$	27,771
Information Technology Department		**10,556**		1,226
PACE Fund		**6,900**		-
Ag PACE Fund		**700**		-
Beginning Farmer Revolving Loan Fund		**1,200**		-
	$	**19,356**	$	28,997

COMPONENT UNITS OF THE STATE OF NORTH DAKOTA

SECURITIES				
ND Public Finance Authority (to fund required reserves established by various series resolutions - all noncurrent)	**$**	**1,410**	$	2,435
LONG TERM DEBT				
NDPFA (to fund irrigation and waste management loans - $181 current in 2013 and $181 current in 2012)	**$**	**733**	$	914
INTEREST PAYABLE (NDPFA - all current)	**$**	**7**	$	9

NOTE 5 - LOANS

The composition of the loan portfolio at December 31, 2013 and 2012 is as follows:

	2013	2012
Commercial	**$ 1,388,749**	$ 1,279,002
Student	**1,088,217**	1,053,673
Residential loans	**629,931**	594,508
Agricultural	**361,762**	342,831
	3,468,659	3,270,014
Allowance for loan losses	**51,770**	52,280
	$ 3,416,889	$ 3,217,734
Current portion	**$ 766,580**	$ 773,155

Net unamortized loan premiums and discounts on residential loans totaled $8,259 and $8,145 as of December 31, 2013 and 2012, respectively.

Overdrafts of deposit accounts at December 31, 2012 in the amount of $1,217 have been reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2013.

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The composition of State Institutions loans at December 31, 2013 and 2012 is as follows:

	2013		2012	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 23,000**	**$ -**	$ 38,000	$ -
Western Area Water Supply	**55,906**	**92**	50,000	261
Housing Finance Agency	**7,808**	**9**	7,245	4
Highway Patrol	**1,715**	**3**	266	3
Office of the Adjutant General	**1,123**	**3**	-	-
Dept of Corrections	**1,100**	**10**	-	-
Rough Rider Industries	**112**	**-**	213	-
Dept of Transportation	**-**	**-**	33,000	162
ND State Fair Association	**-**	**-**	965	42
Job Service	**-**	**-**	-	5
	$ 90,764	**$ 117**	$ 129,689	$ 477
Current portion	**$ 34,036**	**$ 100**	$ 79,210	$ 216

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, agricultural, residential real estate, and student loans. The Bank also sub-segments the commercial and agricultural segments into classes based on the associated risks within those segments. Commercial loans are divided into three classes: commercial participations, bank stock, and all other business loans (including PACE). Agricultural loans are also divided into three classes: farm & ranch, farm real estate, and all other farm loans. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the statement of net position date. The Bank considers the allowance for credit losses of $51,770 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2013. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

`

	2013				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 42,112**	**$ 7,102**	**$ 1,447**	**$ 1,619**	**$ 52,280**
Charge-offs	**(2,217)**	**-**	**(58)**	**(314)**	**(2,589)**
Recoveries	**1,802**	**17**	**258**	**2**	**2,079**
Reallocation	**1,362**	**(633)**	**(992)**	**263**	**-**
Ending Balance	**$ 43,059**	**$ 6,486**	**$ 655**	**$ 1,570**	**$ 51,770**

	2012				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 40,118	$ 9,478	$ 2,000	$ 1,287	$ 52,883
Charge-offs	(2,418)	(12)	(362)	(188)	(2,980)
Recoveries	253	24	98	2	377
Provision	4,159	(2,388)	(289)	518	2,000
Ending Balance	$ 42,112	$ 7,102	$ 1,447	$ 1,619	$ 52,280

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

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A loan which meets any of the following criteria must be placed in a non-accrual status:

- The following loans on which the principal and interest is 90 or more days past due: Unsecured loans, loans secured by other than real property, loans secured by a mortgage on commercial real estate, loans secured by a farm real estate mortgage, loans secured by a conventional residential real estate mortgage.
- A loan where the borrower has filed for bankruptcy or where the lead bank or the Bank deems itself insecure due to the financial condition of the borrower.
- A loan which the North Dakota Department of Financial Institutions recommends to be placed in a non-accrual status.

A loan which meets the criteria for non-accrual status may be retained in accrual status if it is (1) guaranteed or insured by the state or federal government or secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest and (2) in the process of collection supported by a document source of collection.

A loan which has been placed in a non-accrual status may be returned to an accrual status only if principal and interest are no longer due and unpaid and if current principal and interest appear to be collectable. In addition, the loan must either be secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest or the borrower must demonstrate through a documented repayment plan the ability to discharge the outstanding principal and interest.

The Bank's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

NOTE 6 - LOAN SALES AND LOAN SERVICING

A summary of the Bank's loan sales during 2013 and 2012 follows:

	2013	2012
Residential loans sold on the secondary market	**$ 12,014**	$ 17,097

(continued on next page)

BND recognized gains on sale of loans of $173 in 2013 and $214 in 2012 which are included in noninterest income on the Statements of Revenues, Expenses and Changes in Fund Net Position.

The Bank has contracts to provide servicing of loans for others. These loans are not included in the accompanying statements of net position. The unpaid principal balances of loans serviced for others as of December 31, 2013 and 2012 were as follows:

	2013	2012
	(Unaudited)	
Student loans		
North Dakota Student Loan Trust	**$ 30,164**	$ 35,339
Residential loans	**22,777**	13,655
Other state fund loans		
Rebuilders Loan Program	**43,088**	36,616
Western Area Water	**60,000**	32,390
Board of University and School Lands	**20,099**	30,751
Community Water Facility Loan Fund	**15,809**	16,048
Department of Human Services	**6,809**	7,433
Information Technology Department	**8,756**	6,268
Workforce Safety	**175**	162
	$ 207,677	$ 178,662

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under the existing residential loan servicing agreement with Fannie Mae, the Bank will indemnify Fannie Mae and hold them harmless against all losses, damages, judgments or legal expenses that result from the Bank's failure in any way to perform its services and duties.

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 is as follows:

	Balance 2012	Additions	Retirements	Balance 2013
Capital assets not being depreciated:				
Land	$ 1,688	$ -	$ -	$ 1,688
Capital assets being depreciated:				
Building	$ 10,212	$ -	$ -	$ 10,212
Equipment	682	172	71	783
Furniture	678	13	-	691
Hardware	252	10	59	203
Intangibles - software	4,835	127	175	4,787
	16,659	322	305	16,676
Less accumulated depreciation for				
Building	1,468	274	-	1,742
Equipment	578	96	71	603
Furniture	318	67	-	385
Hardware	240	11	57	194
Intangibles - software	4,106	312	175	4,243
Total accumulated depreciation	6,710	760	303	7,167
Capital assets, net	$ 9,949	$ (438)	$ 2	$ 9,509

	Balance 2011	Additions	Retirements	Balance 2012
Capital assets not being depreciated:				
Land	$ 1,445	$ 243	$ -	$ 1,688
Capital assets being depreciated:				
Building	$ 10,212	$ -	$ -	$ 10,212
Equipment	663	27	8	682
Furniture	679	-	1	678
Hardware	574	-	322	252
Intangibles - software	4,913	98	176	4,835
	17,041	125	507	16,659
Less accumulated depreciation for				
Building	1,168	300	-	1,468
Equipment	471	115	8	578
Furniture	251	67	-	318
Hardware	537	24	321	240
Intangibles - software	3,893	377	164	4,106
Total accumulated depreciation	6,320	883	493	6,710
Capital assets, net	$ 10,721	$ (758)	$ 14	$ 9,949

Depreciation and amortization expense on the above assets amounted to $760 and $883 in 2013 and 2012, respectively.

NOTE 8 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $3,596,545 and $3,136,633 as of December 31, 2013 and 2012, respectively.

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At December 31, 2013, the scheduled maturities of certificates of deposits are as follows:

One year or less	$	3,163,324
One to three years		329,168
Over three years		129,510
	$	3,622,002

NOTE 9 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

		Federal Funds Purchased		Repurchase Agreements
2013				
Ending balance	**$**	**245,110**	**$**	**-**
Highest month-end balance		**537,345**		**-**
Average daily balance		**255,809**		**-**
Weighted average interest rate				
As of year-end		**0.125%**		**0.00%**
Paid during year		**0.127%**		**0.00%**
2012				
Ending balance	$	275,960	$	-
Highest month-end balance		511,915		-
Average daily balance		225,769		-
Weighted average interest rate				
As of year-end		0.125%		0.00%
Paid during year		0.127%		0.00%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements has not been provided since this information would not provide any useful information to the users of the financial statements.

Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2013 and 2012, because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2013 and 2012. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

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NOTE 10 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the years ended December 31, 2013 and 2012 was as follows:

	Balance 2012	Additions	Reductions	Balance 2013	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	**$ 405,338**	**$ 140,000**	**$ 80,110**	**$ 465,228**	**$ 3,236**
ND Public Finance Authority	**914**	**-**	**181**	**733**	**181**
Compensated absences	**1,020**	**915**	**914**	**1,021**	**868**
Total long-term liabilities	**$ 407,272**	**$ 140,915**	**$ 81,205**	**$ 466,982**	**$ 4,285**

	Balance 2011	Additions	Reductions	Balance 2012	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 470,327	$ 53,000	$ 117,989	$ 405,338	$ 3,110
ND Public Finance Authority	1,095	-	181	914	181
Compensated absences	966	824	770	1,020	816
Total long-term liabilities	$ 472,388	$ 53,824	$ 118,940	$ 407,272	$ 4,107

A summary, by years, of future minimum payments required to amortize the outstanding long-term debt is as follows:

	Principal	Interest	Total
2014	$ 3,417	$ 15,317	$ 18,734
2015	3,540	15,178	18,718
2016	3,650	15,038	18,688
2017	3,763	14,885	18,648
2018	98,854	12,971	111,825
2019-2023	349,082	35,944	385,026
2024-2025	3,655	79	3,734
Totals	$ 465,961	$ 109,412	$ 575,373

The FHLB long-term advances outstanding at December 31, 2013, mature from January 2018 through March 2025. The FHLB long-term advances have fixed rate interest, ranging from 1.12% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels by pledging residential loans and student loans. Loans totaling $556,368 and $537,031 at December 31, 2013 and 2012, respectively, are currently being used as security to meet these minimum levels.

The ND Public Finance Authority long-term borrowing is unsecured. Proceeds from the long-term borrowings are used to make irrigation and livestock waste program loans at Bank of North Dakota.

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NOTE 11 - TRANSFERS PAYABLE

Transfers have been made out of unrestricted net assets to transfers payable. The Bank has the following transfers payable as of December 31, 2013 and 2012:

	2013	2012
Industrial Commission	**$ -**	$ 43

NOTE 12 - PENSION PLAN

Bank of North Dakota participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota has implemented a salary reduction agreement and is currently contributing the employees share. Bank of North Dakota is required to contribute 6.12% of each participant's salary as the employer's share. In addition to the 6.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2013, 2012 and 2011 were approximately $997, $868 and $754, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

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NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action- Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2013 and ending June 30, 2015. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1020, Section 5 – The Bank shall provide a loan of $40,000 to the Western Area Water Supply Authority for construction of a large water project in the western part of the state. The terms and conditions of the loan must be negotiated between the Bank and the Western Area Water Supply Authority. As of December 31, 2013, the Bank had disbursed $5,906.

H.B. 1185, Section 3 – The Bank shall transfer up to $5,000 to the rebuilders loan program. As of December 31, 2013, the Bank had transferred the entire amount.

S.B. 2003, Section 28 – The State Board of Higher Education may borrow up to $62,000 for the University of North Dakota School of Medicine and Health Sciences facility project.

S.B. 2014, Section 7 – The Bank shall transfer up to $28,000 from its current earnings and undivided profits to the partnership in assisting community expansion fund. As of December 31, 2013, the Bank had transferred $6,800.

S.B. 2014, Section 8 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the agriculture partnership in assisting community expansion fund. As of December 31, 2013, the Bank had transferred $700.

S.B. 2014, Section 9 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the biofuels partnership in assisting community expansion fund. As of December 31, 2013, the Bank had transferred $100.

S.B. 2014, Section 10 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits to the beginning farmer revolving loan fund. As of December 31, 2013, the Bank had transferred $1,200.

S.B. 2019, Section 6 – Williston State College may borrow up to $2,500 for the workforce training building project.

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State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the resources trust fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture. If the bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400. The Bank may have no more than $8,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2012, the Bank had guarantees outstanding totaling $106. There were no guarantees outstanding as of December 31, 2013. The Bank had no guarantee commitments outstanding as of December 31, 2013 and 2012 included in commitments to extend credit.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85% of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as defined by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan up to $200. The term of the guarantee may not exceed five years. As of December 31, 2013 and 2012, the Bank has guarantees outstanding totaling $4,733 and $4,516, respectively, and had guarantee commitments outstanding of $47 and $558, respectively, included in commitments to extend credit

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NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of net position. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2013 and 2012, the following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount	
	2013	2012
Commitments to extend credit	**$ 804,130**	$ 780,001
Financial standby letters of credit	**311,131**	260,731
Guarantees provided	**4,780**	5,180

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 and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments.

Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $258,285 and $191,935 at December 31, 2013 and 2012, respectively. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

NOTE 15 - RISK MANAGEMENT

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

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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 Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency 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 in any of the past three fiscal years.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **EXHIBIT A-1**
YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest subsidy		$ 2,786,362
Special allowance		92,917
Excess interest		(15,532,521)
Net special allowance received/(paid)		(15,439,604)
Guaranteed Student Loans:		
Previous year balance of loans on which there are continuing compliance requirements		610,207,495
Total guaranteed student loans (Note 2)		610,207,495
Total Department of Education		597,554,253
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Program:		
Federal Housing Administration (FHA) Loan Program	14.117	
Guaranteed Loans:		
Previous year balance of loans on which there are continuing compliance requirements		426,088,009
FHA loan principal disbursed during the fiscal year		89,465,759
Total guaranteed loans (Note 3)		515,553,768
Total Department of Housing and Urban Development		515,553,768
DEPARTMENT OF DEFENSE		
Direct Program:		
Veteran's Benefits Administration (VA) Loan Program	64.114	
Guaranteed Loans:		
Previous year balance of loans from on which there are continuing compliance requirements		124,540,901
VA loan principal disbursed during the fiscal year		52,168,932
Total guaranteed loans (Note 4)		176,709,833
Total Department of Defense		176,709,833
DEPARTMENT OF JUSTICE		
Direct Program:		
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Grant for loan forgiveness		51,655
Department of Justice		51,655
TOTAL FEDERAL AWARDS		$ 1,289,869,509

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - The outstanding balance of guaranteed student loans on which there are continuing compliance requirements under the student loan program totaled $542,447,062 as of December 31, 2013.

NOTE 3 - The outstanding balance of guaranteed FHA residential loans on which there are continuing compliance requirements totaled $424,003,368 as of December 31, 2013.

NOTE 4 - The outstanding balance of guaranteed VA residential loans on which there are continuing compliance requirements totaled $142,920,903 as of December 31, 2013.

2012-02 **Department of Education**
CFDA # 84.032
Federal Family Education Loans Program
2012 Award Year

Special Tests and Provisions – Interest Subsidies related to Loan Purchases
Significant Deficiency in Internal Control over Compliance

Condition: The Bank billed the Department of Education for interest benefits on ineligible FFEL rehabilitation loans that were purchased during 2012.

Status: Corrective action was taken.

2012-03 **Department of Education**
CFDA # 84.032
Federal Family Education Loans Program
2012 Award Year

Special Tests and Provisions – LaRS Reporting for Cured Loans
Significant Deficiency in Internal Control over Compliance

Condition: The Bank did not accurately report information related to loan cures on the LaRS during 2012. Specifically, the average daily balance calculations reported in the special allowance payment section of the LaRS were not adjusted when the loans became ineligible for special allowance payments at the time the loans ceased to be eligible for insurance and again at the time when the loans became eligible for special allowance payments after being cured.

Status: Corrective action was taken.

2012-04 **Department of Housing and Urban Development**
CFDA # 14.117
Mortgage Insurance – Homes
2012 Award Year

Special Tests and Provisions – Loan Servicing of Delinquent and Defaulted Loans
Significant Deficiency in Internal Control over Compliance

Condition: The Bank did not make telephone contact with delinquent borrowers between the 17^{th} and 30^{th} day of delinquency.

Status: Corrective action was taken.

2012-05 **Department of Veteran's Affairs**
CFDA # 64.114
Veterans Housing – Guaranteed and Insured Loans
2012 Award Year

Special Tests and Provisions – Loan Servicing of Delinquent and Defaulted Loans
Significant Deficiency in Internal Control over Compliance

Condition: The Bank did not make telephone contact with a delinquent borrower during the first 30 days of delinquency and did not send a letter to another borrower within 45 calendar days after the payment was due.

Status: Corrective action was taken.

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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 Bank of North Dakota, 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 Bank of North Dakota's basic financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank of North Dakota'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 Bank of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota'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 findings and questioned costs as Finding 2013-A, that we consider to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Bank of North Dakota's Response to Findings
Bank of North Dakota's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Bank of North Dakota'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
March 25, 2014

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

The Industrial Commission
Bank of North Dakota
Bismarck, North Dakota

Report on Compliance for Each Major Federal Program
We have audited Bank of North Dakota's, an enterprise fund of the State of North Dakota, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Bank of North Dakota's major federal programs for the year ended December 31, 2013. The Bank of North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of Bank of North Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bank of North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bank of North Dakota's compliance.

Opinion on Each Major Federal Program
In our opinion, Bank of North Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended December 31, 2013.

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Report on Internal Control over Compliance

Management of Bank of North Dakota is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bank of North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
March 25, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over federal programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

Name of Federal Program	CFDA number
Federal Family Education Loans Program	84.032
Mortgage Insurance – Homes	14.117
Veterans Housing – Guaranteed and Insured Loans	64.114

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

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/Proposed Action Item(s): 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.

Action Item Owner: Mark Hawks

Action Item Target Date: Estimated completion date is 4/30/2014.

Section III – Federal Award Findings and Questioned Costs

No federal award findings reported in the current year.

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

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 regarding the December 31, 2013 audit of Bank of North Dakota are as follows:

Audit Report Communications:

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

   Unmodified

2. Was there compliance with statutes, laws, rules and regulations under which the Agency was created and 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. Was action taken on prior audit findings and recommendations?

   Yes

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

   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.

   As described in Note 1 to the financial statements, the Bank of North Dakota changed accounting policies related to the recording of loan fees collected or paid by adopting Statement of Governmental Accounting Standards (GASB Statement) No.65, *Items Previously Reported as Assets and Liabilities*, in 2013. Accordingly, the financial statements for the year ended December 31, 2012 have been restated to adjust the activity related to loan fees and costs, including an adjustment to increase beginning net position as of January 1, 2012 by $10,671,497.

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 these estimates.

   Bank of North Dakota has a significant accounting estimate in their determination of the allowance for loan losses. The allowance for loan losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio at the statement of net position date. The allowance for loan losses is based on periodic analysis of the loan portfolio by management. In this analysis, management considers factors including, but not limited to, current economic conditions, loan portfolio composition and historical loss experience. We have evaluated the 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, Bank of North Dakota'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 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 Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
March 25, 2014

BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-1
BIENNIUM ENDED JUNE 30, 2013
(In Thousands)

	Biennium Appropriation July 1, 2011 to June 30, 2013	Expenditures for Year Ended June 30, 2013	Expenditures for Year Ended June 30, 2012	Unexpended Appropriations
APPROPRIATED EXPENDITURES:				
Operating Expenses	$ 45,587	$ 23,840	$ 20,012	$ 1,735
Capital Assets	1,266	225	124	917
	$ 46,853	$ 24,065	$ 20,136	$ 2,652

		Expenditures for Year Ended June 30, 2013	Expenditures for Year Ended June 30, 2012
*	**Expenditures Reconciliation:**		
	Total expenses per financial statements-		
	Interest expense	$ 30,217	$ 35,349
	Provision for loan losses	-	2,000
	Operating expenses	36,172	31,586
		66,389	68,935
	Non-appropriated expenditures:		
	Interest expense	30,217	35,349
	Provision for loan losses	-	2,000
	Long-term debt prepayment fee	9,382	8,962
	Correspondent fees	801	818
	Depreciation and amortization	760	913
	Other real estate expense	4	-
	Loan collection expenses	208	397
	Loan servicing fee expense	425	399
	Other expenses	75	15
	Nonappropriated expenditures	41,872	48,853
	Equipment capitalized	211	-
	Land capitalized	-	517
	Hardware capitalized	10	11
	Software capitalized	152	67
	Salaries capitalized	73	63
		446	658
	Timing differences for appropriated expenditures:		
	July 1, 2013 to December 31, 2013	(11,409)	-
	July 1, 2012 to December 31, 2012	10,511	(10,511)
	July 1, 2011 to December 31, 2011	-	9,907
		(898)	(604)
	Appropriated Expenditures for the fiscal year	$ 24,065	$ 20,136

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority a provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA
DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-2
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012	Total
Operating			
Salaries and wages	$ 9,103	$ 8,598	$ 17,701
Social security	692	656	1,348
Hospital insurance	1,772	1,727	3,499
State retirement contribution	930	809	1,739
Vacation and sick leave benefits	84	98	182
Unemployment insurance and worker's compensation premium	8	20	28
Building expenses	271	213	484
Furniture and equipment expenses	92	83	175
Processing and development expenses	1,421	1,241	2,662
Software/IT supplies	210	142	352
Contractual services/repairs	2,097	1,779	3,876
IT equipment < $5,000	276	42	318
Telephone	278	273	551
Marketing	1,490	1,509	2,999
Professional services	839	765	1,604
Travel	187	157	344
Dues and publications	208	181	389
Supplies	196	147	343
Postage	684	679	1,363
Other operating expenses	428	317	745
Contingency	2,574	576	3,150
	23,840	20,012	43,852
Capital assets	225	124	349
	$ 24,065	$ 20,136	$ 44,201

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Karlene Fine, Executive Director
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the Bank of North Dakota 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* and OMB Circular A-133 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 October 10, 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 Bank of North Dakota are described in Note 1 to the financial statements.

During 2013, the Bank of North Dakota implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus,* which did not have a significant effect on financial reporting. As described in Note 1 to the financial statements, the Bank of North Dakota also adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*, in 2013 which changed the accounting treatment for loan fees collected or paid by the Bank. Accordingly, the financial statements for the fiscal year ended December 31, 2012 have been restated to adjust the activity related to these loan fees, including an adjustment to decrease beginning net position as of January 1, 2012 by $10,671,497. No other new accounting policies were adopted and the application of other existing policies was not changed during the year ended December 31, 2013.We noted no transactions entered into by the Bank of North Dakota 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 financial statements was:

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> The allowance for loan losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio as of the statement of net position date. The allowance for loan losses is based on periodic analysis of the loan portfolio by management. In this analysis, management considers factors including, but not limited to, current economic conditions, loan portfolio composition and historical loss experience. Loans are charged off to the extent they are deemed to be uncollectible. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. We have evaluated the 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.

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. No misstatements were detected as a result of audit procedures.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 50, *Pension Disclosures*, as they relate to government employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes accounting guidance for employers participating in single-employer and multiple-employer defined benefit plans, cost-sharing plans and defined contribution plans. The statement also addresses note disclosure and required supplementary information for employers whose employees are provided with defined benefit pensions through trusts. This statement will be applicable to the Bank of North Dakota and will be effective for fiscal years beginning after June 15, 2014.

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 Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
March 25, 2014