

**NORTH DAKOTA HOUSING INCENTIVE FUND
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

| | Page |
|--|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| FINANCIAL STATEMENTS | |
| Balance Sheets | 7 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 8 |
| Notes to the Financial Statements | 9 |
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 13 |
| INDEPENDENT AUDITOR'S COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE | 15 |
| Audit Committee Letter | 17 |

INDEPENDENT AUDITOR'S REPORT

Governor Jack Dalrymple
The Legislative Assembly
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Housing Incentive Fund, a special revenue fund of the State of North Dakota as of and for the years ended June 30, 2016 and 2015, and the related notes to the 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Housing Incentive Fund, a special revenue fund of the State of North Dakota, as of June 30, 2016 and 2015, and the respective changes in financial position, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the North Dakota Housing Incentive Fund and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2016 and 2015, the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2016, on our consideration of the North Dakota Housing Incentive Fund'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 North Dakota Housing Incentive Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 12, 2016

NORTH DAKOTA HOUSING INCENTIVE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

The discussion and analysis of the financial performance of the Housing Incentive Fund (Fund) that follows is meant to provide additional insight into the Fund's activities for the years ended June 30, 2016 and 2015. Please read it in conjunction with the Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

The Fund's current assets consist only of cash deposited at the Bank of North Dakota. The Cash balance at the end for FY2016 was \$26,375,070, an increase of \$19,643,546 from the FY2015 balance of \$6,731,524, which was a decrease of \$21,356,339, from the FY2014 balance of \$28,087,863. The fluctuations are a result of the Fund's operational activity.

Current liabilities increased by \$2,232 from \$272 in FY2015 to \$2,504 in FY2016. This amount was payable to North Dakota Housing Finance Agency for administrative costs. The amount payable to North Dakota Housing Finance Agency for administrative costs decreased \$3,819 from \$4,091 in FY2014 to \$272 in FY2015. In FY2016 and FY2015, no amount was payable to other entities. The FY2014 amount payable to other entities was \$2,000.

Contribution Revenue in FY2016 was \$27,032,395. No Contribution Revenues were received in FY2015. Contribution Revenues of \$19,169,950 were received in FY2014. All Contribution revenue in FY2016 are attributed to the third initiated measure, while all of the FY2014 Contribution revenues were attributed to the second initiated measure.

No Fee Income was received in FY2016. Fee Income of \$1,000 was recognized in FY2015. Fee Income in FY2014 was \$500. The Fee Income Revenue was generated from application fees for projects which were either not approved or withdrew their funding request.

Administrative and Operating expenses paid to North Dakota Housing Finance Agency increased by \$6,354 in FY2016 to \$21,341 from \$14,987 in FY2015. FY2015 Administrative and Operating expenses paid to North Dakota Housing Finance Agency decreased by \$15,921 from \$30,908 in FY2014. The changes are a result of general operating expenses and salaries.

The Fund's Grant Expense decreased by \$3,966,793 from \$21,336,533 in FY2015 to \$17,369,740 in FY2016. FY2015 Grant Expense was an increase of \$6,415,657 from \$14,920,876 in FY2014. All Grant Expenses can be attributed to the first, second and third initiated measure of the Fund.

The Fund's FY2016 ending balance of \$26,372,566 is a result of the Bank of North Dakota transfer of \$10,000,000 along with revenue received of \$27,032,395 less administrative expenses of \$21,341, grant expense of \$17,369,740 and a beginning balance of \$6,731,252. The Fund's FY2015 ending balance of \$6,731,252 contains revenue received of \$1,000 less administrative expenses of \$14,987 and grant expense of \$21,336,533 along with a beginning balance of \$28,081,771. The Fund's FY2014 ending balance of \$28,081,771 encompasses the general fund transfer of \$15,400,000 along with revenue received of \$19,170,450 less administrative expenses of \$30,908, grant expense of \$14,920,876 and a beginning balance of \$8,463,105. The fund balance is considered restricted.

NORTH DAKOTA HOUSING INCENTIVE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
JUNE 30, 2016 AND 2015

Overview of the Financial Statements

Condensed Balance Sheets
June 30, 2016, 2015 and 2014

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>Percentage</u> |
|---|----------------------|---------------------|----------------------|----------------------|-------------------|
| ASSETS | | | | | |
| Restricted current assets | <u>\$ 26,375,070</u> | <u>\$ 6,731,524</u> | <u>\$ 28,087,863</u> | <u>\$ 19,643,546</u> | <u>292%</u> |
| Total assets | <u>\$ 26,375,070</u> | <u>\$ 6,731,524</u> | <u>\$ 28,087,863</u> | <u>\$ 19,643,546</u> | <u>292%</u> |
| LIABILITIES | | | | | |
| Current liabilities | <u>\$ 2,504</u> | <u>\$ 272</u> | <u>\$ 6,091</u> | <u>\$ 2,232</u> | <u>821%</u> |
| Total liabilities | <u>2,504</u> | <u>272</u> | <u>6,091</u> | <u>2,232</u> | <u>821%</u> |
| FUND BALANCE | | | | | |
| Restricted for affordable multifamily housing | <u>26,372,566</u> | <u>6,731,252</u> | <u>28,081,772</u> | <u>19,641,314</u> | <u>292%</u> |
| Total liabilities and fund balance | <u>\$ 26,375,070</u> | <u>\$ 6,731,524</u> | <u>28,087,863</u> | <u>\$ 19,643,546</u> | <u>292%</u> |

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets
Years Ended June 30, 2016, 2015 and 2014

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>Percentage</u> |
|--|----------------------|---------------------|----------------------|----------------------|-------------------|
| REVENUES | | | | | |
| Contributions | <u>\$ 27,032,395</u> | <u>\$ -</u> | <u>\$ 19,169,950</u> | <u>\$ 27,032,395</u> | <u>100%</u> |
| Fee income | <u>-</u> | <u>1,000</u> | <u>500</u> | <u>(1,000)</u> | <u>-100%</u> |
| Total revenues | <u>27,032,395</u> | <u>1,000</u> | <u>19,170,450</u> | <u>27,031,395</u> | <u>2703140%</u> |
| EXPENDITURES | | | | | |
| OPERATING EXPENSES | | | | | |
| Administrative and operating expenses | <u>21,341</u> | <u>14,987</u> | <u>30,908</u> | <u>6,354</u> | <u>42%</u> |
| Grant expenses | <u>17,369,740</u> | <u>21,336,533</u> | <u>14,920,876</u> | <u>(3,966,793)</u> | <u>-19%</u> |
| Total expenditures | <u>17,391,081</u> | <u>21,351,520</u> | <u>14,951,784</u> | <u>(3,960,439)</u> | <u>-19%</u> |
| Revenue over expenditures | <u>9,641,314</u> | <u>(21,350,520)</u> | <u>4,218,666</u> | <u>30,991,834</u> | <u>-145%</u> |
| TRANSFERS | | | | | |
| Transfers from North Dakota State General Fund | <u>10,000,000</u> | <u>-</u> | <u>15,400,000</u> | <u>10,000,000</u> | <u>100%</u> |
| CHANGE IN FUND BALANCE | <u>19,641,314</u> | <u>(21,350,520)</u> | <u>19,618,666</u> | <u>40,991,834</u> | <u>-192%</u> |
| TOTAL FUND BALANCE, BEGINNING OF YEAR | <u>6,731,252</u> | <u>28,081,772</u> | <u>8,463,106</u> | <u>(21,350,520)</u> | <u>-76%</u> |
| TOTAL FUND BALANCE, END OF YEAR | <u>\$ 26,372,566</u> | <u>\$ 6,731,252</u> | <u>\$ 28,081,772</u> | <u>\$ 19,641,314</u> | <u>292%</u> |

NORTH DAKOTA HOUSING INCENTIVE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
JUNE 30, 2016 AND 2015

Budgetary Information

As discussed in Note 1 to the financial statements, the Housing Incentive Fund (HIF) was first authorized by the Sixty-second Legislative Assembly under chapter 54-17 of the North Dakota Century Code (NDCC) and was reauthorized by the Sixty-third and Sixty-fourth Legislative Assemblies. The aggregate amount of tax credits allowed to all eligible contributors in the first initiated measure was \$15,000,000; \$20,000,000 in the second initiated measure; and \$30,000,000 in the third initiated measure. A transfer from the General Fund of \$15,400,000 was authorized in the second initiated measure. In the third initiated measure a transfer from of Bank of North Dakota earnings of \$5,000,000 was authorized along with an additional transfer for \$5,000,000 contingent on the Bank of North Dakota's calendar year 2015 net income.

Outlook

North Dakota Housing Incentive Fund was established by the North Dakota Sixty-second Legislative Assembly under chapter 54-17 of the North Dakota Century Code. The Fund was created to receive contributions for the tax years of 2011 and 2012 up to \$15,000,000. The Fund was fully funded by the December 31, 2012 deadline. The Fund was reauthorized and expanded by the Sixty-third Legislative Assembly. The Fund was able to receive up to \$20,000,000 of tax credits for tax years 2013 and 2014. In addition to the tax credits, the Fund received an additional \$15,400,000 general fund appropriation, for a total of \$35,400,000. The legislation for the Funds authorization included an emergency clause which allowed the Fund to begin receiving contributions in FY2013. The Fund was fully funded by December 31, 2013.

The North Dakota Sixty-fourth Legislative Assembly reauthorized the Fund to receive up to \$30,000,000 of tax credits for tax years 2015 and 2016. In addition the Fund received a \$5,000,000 transfer from the Bank of North Dakota. Another contingent transfer from the Bank of North Dakota in the amount of \$5,000,000 occurred in FY2016, as the Bank of North Dakota met the net income contingency in the third initiated measure. All transfers from the Bank of North Dakota were completed in FY2016. The Housing Incentive Fund has a remaining tax credit balance of \$2,967,605 to collect by December 31st, 2016.

The continuation of the Fund will be determined by the North Dakota Sixty-fifth Legislative Assembly.

Contacting the Housing Incentive Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Fund's operations along with the Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Housing Incentive Fund, PO Box 1535, Bismarck, ND 58502-1535.

NORTH DAKOTA HOUSING INCENTIVE FUND
BALANCE SHEETS
JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | <u>\$ 26,375,070</u> | <u>\$ 6,731,524</u> |
| Total assets | <u><u>\$ 26,375,070</u></u> | <u><u>\$ 6,731,524</u></u> |
| LIABILITIES | | |
| Due to state agencies | <u>\$ 2,504</u> | <u>\$ 272</u> |
| Total liabilities | <u>2,504</u> | <u>272</u> |
| FUND BALANCE | | |
| Restricted for affordable multifamily housing | <u>26,372,566</u> | <u>6,731,252</u> |
| Total fund balance | <u>26,372,566</u> | <u>6,731,252</u> |
| Total liabilities and fund balance | <u><u>\$ 26,375,070</u></u> | <u><u>\$ 6,731,524</u></u> |

See Note to the Financial Statements

NORTH DAKOTA HOUSING INCENTIVE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-----------------------------|----------------------------|
| REVENUES | | |
| Contributions | \$ 27,032,395 | \$ - |
| Fee income | <u>-</u> | <u>1,000</u> |
| Total revenues | <u>27,032,395</u> | <u>1,000</u> |
| EXPENDITURES | | |
| Administrative and operating expenses | 21,341 | 14,987 |
| Grant expenses | <u>17,369,740</u> | <u>21,336,533</u> |
| Total expenditures | <u>17,391,081</u> | <u>21,351,520</u> |
| Revenue over (under) expenditures | <u>9,641,314</u> | <u>(21,350,520)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | <u>9,641,314</u> | <u>(21,350,520)</u> |
| TRANSFERS | | |
| Transfers from Bank of North Dakota | <u>10,000,000</u> | <u>-</u> |
| CHANGE IN FUND BALANCE | 19,641,314 | (21,350,520) |
| TOTAL FUND BALANCE, BEGINNING OF YEAR | <u>6,731,252</u> | <u>28,081,772</u> |
| TOTAL FUND BALANCE, END OF YEAR | <u><u>\$ 26,372,566</u></u> | <u><u>\$ 6,731,252</u></u> |

See Notes to the Financial Statements

NORTH DAKOTA HOUSING INCENTIVE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Housing Incentive Fund (Fund) was created in 2011 by an initiated measure. The Fund was created as a special revolving fund at the Bank of North Dakota. The Fund is to be used to address unmet housing needs in North Dakota which includes new construction, rehabilitation, or acquisition of multifamily housing projects; gap assistance, matching funds, and accessibility improvements; assistance that does not exceed the amount necessary to qualify for a loan using underwriting standards acceptable for secondary market financing or to make the project feasible; and rental assistance, emergency assistance, or targeted supportive services designated to prevent homelessness. The Fund was reenacted in 2013 by an initiated measure. Under the new allocation plan, in addition to the types of uses described above, the Fund must give first priority through its scoring and ranking process to housing for essential services. The second priority is to provide housing for individuals and families of low and moderate income. The fund was reenacted in 2015 by an initiated measure. Under this allocation plan, all terms are the same as the 2013 measure.

Reporting Entity

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

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Fund is included as part of the primary government of the State of North Dakota's reporting entity.

Budgetary Process

The Fund is considered a continuing appropriation and only prepares a budget detailing the expected expenditures of the Fund. Those expenditures encompass the funds already appropriated to the Fund.

The State's budgeting system does not include revenues and thus, a Statement of Revenues and Expenses - Budget and Actual cannot be prepared as required by generally accepted accounting principles. A statement of appropriations cannot be presented because the Fund is a continuing appropriation and therefore no specific appropriation has been made to compare to.

Accounting Standards

The Fund 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. Funding is derived from individual, business, and financial institution tax payers who receive a dollar-for-dollar tax credit in exchange for their contributions to the Fund.

NORTH DAKOTA HOUSING INCENTIVE FUND
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

Fund Accounting

The Fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. The Fund accounts for the flow of resources of carrying on specific activities in accordance with laws, regulations, or debt restrictions. The Fund is operated as a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The Fund is used to account for contributions from state income and financial institution taxpayers.

Basis of Accounting

The Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. Expenditures are recorded when the related fund liability is incurred.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fund classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by upper management.
- Unassigned – includes fund balance which has not been classified within the above mentioned categories.

The Fund uses *restricted / committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Fund would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

NORTH DAKOTA HOUSING INCENTIVE FUND
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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 reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Contributions

The Fund recognizes contribution revenue when taxpayer donations are received.

NOTE 2 DEPOSITS

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds...must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

The bank balances of deposits of the Fund at June 30, 2016 and 2015 were \$26,375,070 and \$6,731,524, consisting of non-interest-bearing operating cash deposited at the Bank of North Dakota.

The deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. The carrying amounts of the deposits of the Fund at the Bank of North Dakota at June 30, 2016 and 2015 were \$26,375,070 and \$6,731,524.

NOTE 3 RELATED PARTY TRANSACTIONS

The Fund had the following transactions with related parties as of June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|----------------------|------------------|
| Due to state agencies | | |
| North Dakota Housing Finance Agency | <u>\$ 2,504</u> | <u>\$ 272</u> |
| Administrative expenditures | | |
| North Dakota Housing Finance Agency | <u>\$ 21,341</u> | <u>\$ 14,987</u> |
| Transfers in | | |
| Bank of North Dakota | <u>\$ 10,000,000</u> | <u>\$ -</u> |

NORTH DAKOTA HOUSING INCENTIVE FUND
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

NOTE 4 COMMITMENTS

The Fund makes various commitments relating to construction projects to meet unmet housing needs across North Dakota. The Fund had \$80,064,999 and \$49,700,000 of signed commitments for construction projects as of June 30, 2016 and 2015. The Fund had an additional \$10,335,001 and \$700,000 of conditional commitments for construction projects as of June 30, 2016 and 2015. The total paid on these commitments as of June 30, 2016 and 2015 was \$61,061,825 and \$43,336,188.

NOTE 5 SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 12, 2016, which is that date these financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Governor Jack Dalrymple
The Legislative Assembly
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with the 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 North Dakota Housing Incentive Fund, special revenue fund of the State of North Dakota, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise North Dakota Housing Incentive Fund's basic financial statements, and have issued our report thereon dated October 12, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota Housing Incentive Fund'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*.

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.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 12, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S COMMENTS REQUESTED BY
THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE**

Governor Jack Dalrymple
The Legislative Assembly
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

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

Audit Report Communications:

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

Unmodified opinion

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

5. Was action taken on prior audit findings and recommendations?

There were no prior year findings.

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

No

Audit Committee Communications:

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

None

- 8. 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.**

None

- 9. Identify any significant audit adjustments.**

None

- 10. 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

- 11. Identify any significant difficulties encountered in performing the audit.**

None

- 12. Identify any major issues discussed with management prior to retention.**

None

- 13. Identify any management consultations with other accountants about auditing and accounting matters.**

None

- 14. Identify any high-risk information technology systems critical to the operations based on the auditor's overall assessment of the importance of the system to the Fund 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.**

None

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Advisory Board, management, others within the entity, and the federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 12, 2016

October 12, 2016

Governor Jack Dalrymple
The Legislative Assembly
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the of the North Dakota Housing Incentive Fund, a special revenue fund of the State of North Dakota, for the years ended June 30, 2016 and 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and 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 June 12, 2015. 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 North Dakota Housing Incentive Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no significant estimates affecting the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any known or likely misstatements during the audit.

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 October 12, 2016.

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

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota