Financial Statements
June 30, 2012 and 2011

North Dakota Development Fund, Inc.

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the North Dakota Development Fund, Inc. a component unit of the State of North Dakota, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the financial statements of the State of North Dakota that is attributable to the transactions of North Dakota Development Fund, Inc. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Development Fund, Inc. as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2012 on our consideration of the North Dakota Development Fund, Inc.'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Development Fund, Inc.' financial statements as a whole. The accompanying supplementary information on pages 20 through 29 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Bismarck, North Dakota
October 25, 2012

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2012. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue increased by $910,328 (93.20 %) to $1,887,396. Operating revenues decreased by $62,572 (6.95%) to $835,092. Cash flow increased by $2,801,754 (79.25%) to $6,336,733. The Fund collected $4,832,119 in principal payments in 2012, which was an increase of $2,424,208 (200%) from 2011. The increase in total revenues and operating revenues was attributable to additional payouts of loans on the books of the North Dakota Development Fund.

The Fund received $162,738 in dividend payments in 2012 from equity investments made, an increase from the $109,128 received in dividend payments in 2011. The increase was attributable to additional payments received in dividend payments to the Fund in 2012 as compared to 2011.

General and Administrative expense increased by $22,923 (5.76%) from $397,944 in 2011 to $420,867 in 2012. The increase in administrative expense was attributable to an increase in salary expense and repo expense from 2011 to 2012.

Operating loss before non-operating revenues & expenses increased by ($218,614) from ($16,011) in 2011 to ($234,625) in 2012. The decline in the operating loss in 2012 was attributable to an increase in reserve for bad debt expense and an increase in General and Administrative expense in 2012 as compared to 2011 in addition to the reduction in operating revenues from $897,664 in 2011 to $835,092 in 2012.

Interest income on deposits decreased by $27,100 (34.50%) from $79,404 received in 2011 to $52,304 received in 2012. The decrease was the result of decreased interest rates received on the investments being made in certificates of deposit at the Bank of North Dakota.

Change in net assets increased by $754,286 from $63,393 in 2011 to $817,679 in 2012. The increase was attributable to the North Dakota Development Fund receiving an appropriation from the North Dakota Legislature in the amount of $1 million dollars for a new funding program called the Small Business Technology Program in July of 2011.

Net assets increased by $817,679 from $23,142,094 in 2011 to $23,959,773 in 2012. The increase was attributable to the North Dakota Development Fund receiving an appropriation from the North Dakota Legislature in the amount of $1 million dollars for a new funding program called the Small Business Technology Program.

Noncurrent net assets (excluding equipment) increased by $1,540,281 from $7,841,863 in 2011 to $9,382,144 in 2012.The noncurrent assets consist of the Fund's loan and equity investments. The equity investments made decreased by $815,502 from 2011 to 2012.The equity investments that were charged off during 2012 were $662,324 as compared to $370,800 in 2011. The loan investments made increased by $2,525,778 from 2011 to 2012. The loan investments that were charged off during 2012 were $280,547 as compared to $228,327 in 2011. The Fund saw a decline in equity requests in 2012, but saw an increase in requests for loans. Also included in the loan investment balance were loans closed under the new Child Care Loan Program created by Legislative intent and an appropriation from the Legislative session in 2009 and became effective July 1, 2009.

Interest receivable on deposits & loans decreased by ($3,879) to $70,007. The receivable remained stable in 2012 due to the continued improved monitoring of past due accounts and not having to put additional accounts on non-accrual.

Cash & cash equivalents increased by $7,052,795 (250.00%) to $11,703,160 (cash balance is before loan and investment commitments). The increase in Cash & Cash Equivalents was attributable to less dollars being invested in certificate of deposits due to the reduction in CD rates and wanting to put the funds to work in "Primary Sector "businesses in the State of North Dakota. The investment account (which includes certificate of deposit investments) decreased by $8,235,534 from $9,236,500 in 2011 to $1,000,966 in 2012.

The Fund invests their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. But, due to the low rate of interest being offered on certificate of deposits on a longer term, the North Dakota Development Fund has kept the excess funding liquid in saving accounts and putting the funds to work in loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

28 projects were funded totaling $7,114,904.

Required Financial Statements

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net Assets summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

Condensed Balance Sheet
June 30, 2012 and 2011

Assets	2012	2011	2010
Current assets	$ 15,841,282	$ 16,563,884	$ 17,207,305
Noncurrent assets	9,382,144	7,841,863	7,234,496
Total assets	$ 25,223,426	$ 24,405,747	$ 24,441,801
Net Assets			
Current liabilities	$ 1,263,653	$ 1,263,653	$ 1,363,100
Unrestricted	23,959,773	23,142,094	23,078,701
Total net assets	23,959,773	23,142,094	23,078,701
Total liabilities and net assets	$ 25,223,426	$ 24,405,747	$ 24,441,801

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

Condensed Statement of Revenues, Expenses and Changes in Net Assets
for the Year Ended June 30, 2012 and 2011

	2012	2011	2010
Operating Revenues			
Interest income on loans	$ 584,339	$ 584,757	$ 660,760
Dividend income	162,738	109,128	149,679
Gain on sale of investment	8,214	93,542	-
Other	79,801	110,237	55,118
	835,092	897,664	865,557
Nonoperating Revenue			
State appropriations	1,000,000	-	-
Interest income on deposits	52,304	79,404	91,968
	1,052,304	79,404	91,968
Total Revenue	1,887,396	977,068	957,525

	2012	2011	2010
Operating Expenses			
General and administrative	420,867	397,944	386,615
Depreciation expense	-	843	766
Bad debt expense	648,850	514,888	1,121,985
	1,069,717	913,675	1,509,366
Change in Net Assets	817,679	63,393	(551,841)
Net Assets, Beginning of Year	23,142,094	23,078,701	23,630,542
Net Assets, End of Year	$ 23,959,773	$ 23,142,094	$ 23,078,701

Contacting the North Dakota Development Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Development 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 North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 11,703,160	$ 4,650,365
Interest receivable on deposits and loans	70,007	73,886
Investments	1,000,966	9,236,500
Current portion of loans receivable	3,067,149	2,603,133
Total Current Assets	15,841,282	16,563,884
Noncurrent Assets		
Loans receivable, net of current portion	9,382,144	7,841,863
Total Assets	$ 25,223,426	$ 24,405,747
Liabilities and Net Assets		
Current Liabilities		
Accrued expenses	$ 13,653	$ 13,653
Due to state	1,250,000	1,250,000
Total Current Liabilities	1,263,653	1,263,653
Net Assets		
Unrestricted	23,959,773	23,142,094
Total Net Assets	23,959,773	23,142,094
Total Liabilities and Net Assets	$ 25,223,426	$ 24,405,747

	2012	2011
Operating Revenues		
Interest income on loans	$ 584,339	$ 584,757
Dividend income	162,738	109,128
Gain on sale of investment	8,214	93,542
Other	79,801	110,237
	835,092	897,664
Operating Expenses		
General and administrative	420,867	397,944
Depreciation expense	-	843
Bad debt expense	648,850	514,888
	1,069,717	913,675
Operating Loss	(234,625)	(16,011)
Nonoperating Revenue		
State appropriations	1,000,000	-
Interest income on deposits and investments	52,304	79,404
	1,052,304	79,404
Change in Net Assets	817,679	63,393
Net Assets, Beginning of Year	23,142,094	23,078,701
Net Assets, End of Year	$ 23,959,773	$ 23,142,094

	2012	2011
Operating Activities		
Other receipts	$ 226,504	$ 386,666
Payments to suppliers	(420,867)	(447,691)
Net Cash used for Operating Activities	(194,363)	(61,025)
Investing Activities		
Interest received on cash and cash equivalents	672,985	689,407
Purchase of equipment	-	(843)
Purchase of equity investments	(991,668)	(87,500)
Proceeds from the sale of equity investments	617,218	150,000
Purchase of investments	(1,000,966)	(13,794,750)
Sale of investments	9,228,286	12,575,048
Disbursements of business loans	(7,110,816)	(3,830,111)
Principal payments received on business loans	4,832,119	2,407,911
Net Cash provided by (used for) Investing Activities	6,247,158	(1,890,838)
Non-Capital and Related Financing Activities		
Paydown of appropriations	-	(49,700)
Proceeds from state appropriations	1,000,000	-
Net Cash provided by (used for) Financing Activities	1,000,000	(49,700)
Net Change in Cash and Cash Equivalents	7,052,795	(2,001,563)
Cash and Cash Equivalents at Beginning of Year	4,650,365	6,651,928
Cash and Cash Equivalents at End of Year	$ 11,703,160	$ 4,650,365

	2012	2011
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	$ (234,625)	$ (16,011)
Adjustments to reconcile operating		
loss to net cash from operating activities		
Depreciation	-	843
Decrease in accounts payable	-	(49,747)
Gain on sale of investment	8,214	93,542
Allowance for doubtful loan receivables	274,400	577,388
Allowance for realized loss on investments	374,450	(62,500)
Reclassification of interest and dividend income	(616,802)	(604,540)
Net Cash used for Operating Activities	$ (194,363)	$ (61,025)
Supplemental Schedule of Noncash Activities		
Loans receivable written off	$ 280,547	$ 228,327
Equity investments written off	$ 662,324	$ 370,800

Note 1 - Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child care facilities in North Dakota.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, the Corporation should include all component units over which the Corporation 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 Corporation. GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

The Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement 20, the Corporation follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net assets.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 4).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements 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 and valuation of equity investments.

Fixed Assets and Depreciation

All fixed assets are recorded in the accompanying financial statements at cost. Donated fixed assets are stated at fair market value at the time of donation. Equipment with a cost greater than $5,000 is capitalized and reported in the accompanying financial statements. The Corporation's fixed assets are being depreciated on a straight-line basis over estimated useful life of 3 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance For Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis 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. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

Note 2 - Deposits and Investments

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2012, the Corporation had the following cash and investments:

	Fair Value	Less Than One Year
Cash		
Bank of North Dakota	$ 11,703,160	$ 11,703,160
Investments		
Certificates of deposit		
Bank of North Dakota	1,000,966	1,000,966
	$ 12,704,126	$ 12,704,126

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments. At June 30, 2012, the schedule above shows the investments by investment type, amount and the duration.

Cash and investments were recorded on the statement of net assets as follows:

	Balance
Cash and cash equivalents	$ 11,703,160
Investments	1,000,966
	$ 12,704,126

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation’s deposits are uncollateralized. All of the Corporation’s deposits are with the Bank of North Dakota.

Note 3 - Interest Receivable

Interest receivable at June 30, 2012 and 2011 is as follows:

	2012	2011
Interest receivable from loans	$ 70,007	$ 73,886

Note 4 - Equity Investments

Equity investments in business concerns as of June 30, 2012 and 2011 are as follows:

	2012	2011
Development Fund	$ 3,114,165	$ 3,922,830
Regional Rural Development Revolving Loan Fund	1,164,653	1,171,490
	4,278,818	5,094,320
Valuation allowance - Other than temporary impairment	(4,278,818)	(5,094,320)
	$ -	$ -

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Note 5 - Equity Investments – Valuation Allowance

Changes in the valuation allowance for equity investments as of June 30, 2012 and 2011 are as follows:

	2012	2011
Balance, beginning of year	$ 5,094,320	$ 5,684,125
Provision for equity investment losses	374,450	(62,500)
Transfers	(527,628)	(156,505)
Equity investments charged off	(662,324)	(370,800)
Balance, end of year	$ 4,278,818	$ 5,094,320

Note 6 - Loans Receivable

Loans receivable at June 30, 2012 and 2011 are as follows:

	2012	2011
Development fund	$ 11,755,681	$ 9,134,747
Regional rural development revolving loan fund	5,428,604	5,528,147
Child care program	794,326	789,939
	17,978,611	15,452,833
Allowance for loan losses	(5,529,318)	(5,007,837)
Loans receivable, net of allowance for loan losses	12,449,293	10,444,996
Less: current portion of loans receivable	3,067,149	2,603,133
Loans receivable, net of current portion	$ 9,382,144	$ 7,841,863

Note 7 - Allowance for Loan Losses

Changes in the allowance for loan losses as of June 30, 2012 and 2011 are as follows:

	2012	2011
Balance, beginning of year	$ 5,007,837	$ 4,502,271
Provision for loan losses	274,400	577,388
Transfers	527,628	156,505
Loans charged off	(280,547)	(228,327)
Balance, end of year	$ 5,529,318	$ 5,007,837

Note 8 - Equipment

A statement of changes in fixed assets for the years ended June 30, 2012 and 2011 is as follows:

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Furniture and equipment	$ 10,095	$ -	$ -	$ 10,095
Computer software	78,188	-	-	78,188
Accumulated depreciation	(88,283)	-	-	(88,283)
	$ -	$ -	$ -	$ -

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Furniture and equipment	$ 10,095	$ -	$ -	$ 10,095
Computer software	77,345	843	-	78,188
Accumulated depreciation	(87,440)	(843)	-	(88,283)
	$ -	$ -	$ -	$ -

Note 9 - Due to State

In 2011, the State of North Dakota appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the state of North Dakota. The program was extended in the last legislative session through June 30, 2013, at which time it expires. On that date, the appropriation amount is set to be returned to the state. As of June 30, 2012 and 2011, $1,250,000 and $1,250,000 is due back to the state, respectively.

Note 10 - State Appropriation

During the year ended June 30, 2012 the North Dakota Development Fund received $1,000,000 for a new funding program called the Small Business Technology Program.

Note 11 - Commitments and Contingencies

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of $1,036,244 and $3,362,579.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of $757,095 and $1,137,666.

Child Care Fund

The Board of Directors has approved loans at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of $3,363 and $25,867.

Note 12 - Risk Management

North Dakota Development Fund, Inc. 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:

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 participate 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 Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to 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 reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of $100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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.

Supplementary Information
June 30, 2012 and 2011

North Dakota Development Fund, Inc.

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2012	2011
Assets						
Current Assets						
Cash and cash equivalents	$ 6,247,295	$ 4,962,446	$ 493,419	$ -	$ 11,703,160	$ 4,650,365
Interest receivable on deposits and loans	37,623	32,384	-	-	70,007	73,886
Investments	-	-	-	1,000,966	1,000,966	9,236,500
Current portion of loans receivable	2,005,523	926,119	135,507	-	3,067,149	2,603,133
Intercompany receivable (payable)	(5,229)	5,229	-	-	-	-
Total current assets	8,285,212	5,926,178	628,926	1,000,966	15,841,282	16,563,884
Noncurrent Assets						
Loans receivable, net of current portion	6,951,200	2,216,744	214,200	-	9,382,144	7,841,863
Total assets	$ 15,236,412	$ 8,142,922	$ 843,126	$ 1,000,966	$ 25,223,426	$ 24,405,747
Liabilities and Net Assets						
Current Liabilities						
Accrued expenses	$ 13,653	$ -	$ -	$ -	$ 13,653	$ 13,653
Due to state	-	-	1,250,000	-	1,250,000	1,250,000
Total liabilities	13,653	-	1,250,000	-	1,263,653	1,263,653
Net Assets						
Unrestricted	15,222,759	8,142,922	(406,874)	1,000,966	23,959,773	23,142,094
Total net assets	15,222,759	8,142,922	(406,874)	1,000,966	23,959,773	23,142,094
Total liabilities and net assets	$ 15,236,412	$ 8,142,922	$ 843,126	$ 1,000,966	$ 25,223,426	$ 24,405,747

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2012	2011
Operating Revenues						
Interest income on loans	$ 446,117	$ 119,030	$ 19,192	$ -	$ 584,339	$ 584,757
Dividend income	130,275	32,463	-	-	162,738	109,128
Gain on sale of investment	8,214	-	-	-	8,214	93,542
Other	71,186	7,972	643	-	79,801	110,237
	655,792	159,465	19,835	-	835,092	897,664
Operating Expenses						
General and administrative	420,867	-	-	-	420,867	397,944
Depreciation expense	-	-	-	-	-	843
Bad debt expense	581,342	69,830	(2,322)	-	648,850	514,888
	1,002,209	69,830	(2,322)	-	1,069,717	913,675
Operating (Loss) Income	(346,417)	89,635	22,157	-	(234,625)	(16,011)
Nonoperating Revenue (Expense)						
Interest income on deposits and investments	31,210	19,542	586	966	52,304	79,404
State appropriations	-	-	-	1,000,000	1,000,000	-
	31,210	19,542	586	1,000,966	1,052,304	79,404
Change in Net Assets	(315,207)	109,177	22,743	1,000,966	817,679	63,393
Net Assets, Beginning of Year	15,537,966	8,033,745	(429,617)	-	23,142,094	23,078,701
Net Assets, End of Year	$ 15,222,759	$ 8,142,922	$ (406,874)	$ 1,000,966	$ 23,959,773	$ 23,142,094

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2012	2011
Operating Activities						
Other receipts (payments)	$ 217,889	$ 7,972	$ 643	$ -	$ 226,504	$ 386,666
Payments to suppliers	(420,867)	-	-	-	(420,867)	(447,691)
Net Cash (used for) Provided by Operating Activities	(202,978)	7,972	643	-	(194,363)	(61,025)
Non-Capital Financing Activities						
Paydown of appropriations	-	-	-	-	-	(49,700)
Proceeds from state appropriations	-	-	-	1,000,000	1,000,000	-
Net Cash (used for) Provided by Non-Capital Financing Activities	-	-	-	1,000,000	1,000,000	(49,700)
Investing Activities						
Interest and dividends received	481,949	170,292	19,778	966	672,985	689,407
Purchase of equipment	-	-	-	-	-	(843)
Purchase of equity investments	(991,668)	-	-	-	(991,668)	(87,500)
Proceeds from the sale of equity investments	612,764	4,454	-	-	617,218	150,000
Purchase of investments	-	-	-	(1,000,966)	(1,000,966)	(13,794,750)
Sale of investments	5,947,786	3,280,500	-	-	9,228,286	12,575,048
Disbursements of business loans	(6,283,744)	(727,994)	(99,078)	-	(7,110,816)	(3,830,111)
Principal received on business loans	4,182,858	554,570	94,691	-	4,832,119	2,407,911
Net Cash (used for) Provided by Investing Activities	3,949,945	3,281,822	15,391	(1,000,000)	6,247,158	(1,890,838)
Net Change in Cash and Cash Equivalents	3,746,967	3,289,794	16,034	-	7,052,795	(2,001,563)
Cash and Cash Equivalents at Beginning of Year	2,500,328	1,672,652	477,385	-	4,650,365	6,651,928
Cash and Cash Equivalents at End of Year	$ 6,247,295	$ 4,962,446	$ 493,419	$ -	$ 11,703,160	$ 4,650,365

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2012	2011
Reconciliation of Operating (Loss) Gain to Net Cash used in Operating Activities						
Operating (loss) gain	$ (346,417)	$ 89,635	$ 22,157	$ -	$ (234,625)	$ (16,011)
Adjustments to reconcile operating (loss) gain to net cash from operating activities						
Depreciation	-	-	-	-	-	843
Increase in accounts payable	-	-	-	-	-	(49,747)
Change in intercompany receivable (payable)	-	-			-	-
Gain on sale of investment	8,214	-	-	-	8,214	93,542
Allowance for doubtful loan receivables	202,438	74,284	(2,322)	-	274,400	577,388
Allowance for realized loss on investments	378,904	(4,454)	-	-	374,450	(62,500)
Reclassification of interest and dividend income	(446,117)	(151,493)	(19,192)	-	(616,802)	(604,540)
Net Cash (used in) Provided by Operating Activities	$ (202,978)	$ 7,972	$ 643	$ -	$ (194,363)	$ (61,025)
Supplemental Schedule of Noncash Activities						
Loan receivable written off	$ 3,038	$ 277,509	$ -	$ -	$ 280,547	$ 228,327
Equity investments written off	662,324		-	-	662,324	370,800

EideBailly

CPAs & BUSINESS ADVISORS

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

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
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. The items and our responses regarding the June 30, 2012 audit of the North Dakota Development Fund, Inc. (the Corporation) are as follows:

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

   Unqualified.

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

   Yes.

3. Was internal control adequate and functioning effectively?

   Yes, except for the finding noted on the "Schedule of Findings and Responses" on page 29.

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

   No.

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

   No, please see the finding noted on the "Schedule of Findings and Responses" on page 29.

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

   We issued a separate letter with items required to be communicated to those charged with governance.

7. Identify any significant changes in accounting policies, any management conflicts of interest, and 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 those estimates?

   The most sensitive estimates affecting the financial statements include the allowance for uncollectible loans receivable and valuation allowance for equity investments.

   The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

   Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

   Our opinion on the reasonableness of these estimates is based on the testing performed during our audit procedures. Our procedures included assessing the risk assigned by the Development Fund to the loans and equity investments, evaluation of the past history of these amounts, discussion with management, and review of recent information regarding the loans and investments.

9. Identify any significant audit adjustments.

   None.

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

    None.

11. Identify any serious 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 operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

    The Corporation uses SPARAK for its accounting and operations. We noted no internal control issues or exceptions related to the information system used by the Corporation.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, North Dakota Development Fund, Inc. Board of Directors and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
October 25, 2012

EideBailly
CPAs & BUSINESS ADVISORS

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 of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

We have audited the financial statements of North Dakota Development Fund, Inc., as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. 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.

Internal Control Over Financial Reporting

Management of the North Dakota Development Fund, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered North Dakota Development Fund, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Development Fund, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dakota Development Fund, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described as findings 2012-01 in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. 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 to those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Development Fund, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota Development Fund, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the North Dakota Development Fund, Inc.'s response, and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Bismarck, North Dakota
October 25, 2012

2012-01 - Preparation of Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Development Fund does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the Development Fund result in the more than remote likelihood that the Development Fund would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Development Fund and changes in reporting requirements.

Response: Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund, Inc..