

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**(A Component Unit of the State of North Dakota)**

*FINANCIAL STATEMENTS*  
*DECEMBER 31, 2012 AND 2011*

# NORTH DAKOTA PUBLIC FINANCE AUTHORITY

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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## INDEPENDENT AUDITOR'S REPORT

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota Public Finance Authority, a component unit of the State of North Dakota, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the North Dakota Public Finance Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of the business-type activities the North Dakota Public Finance Authority as of December 31, 2012 and 2011, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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.

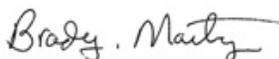
### *Supplementary and Other Information*

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

The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 combining financial statements and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2013 on our consideration of North Dakota Public Finance Authority's internal control over financial reporting and 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* in considering North Dakota Public Finance Authority's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

March 4, 2013

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

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The discussion and analysis of the financial performance of the North Dakota Public Finance Authority (PFA) that follows is meant to provide additional insight into the PFA's activities for the years ended December 31, 2012, 2011 and 2010. Please read it in conjunction with the PFA's financial statements and footnotes, which are presented within this report.

**FINANCIAL HIGHLIGHTS:**

Municipal securities (loans outstanding) decreased 0.3% from \$387,911 in 2011 to \$386,562 in 2012; they increased 9% from \$356,640 in 2010 to \$387,911 in 2011. SRF loans are funded with grant revenues and bond proceeds, which are invested until loans are funded. In 2012, there was \$35,612 of SRF loans funded, \$42,555 in 2011, and \$62,783 in 2010. The variances are due to the demand fluctuations created by the number of projects outstanding. PFA anticipates loan demand will continue to remain strong as these projects are constructed over the next one to two years. Investments increased by 43% to \$219,741 due to several prepayments and additional investment interest income, and increased 37% to \$153,536 in 2011 as bonds were issued.

In the past, the PFA has invested the bond proceeds, excess loan repayments and debt service reserve funds in guaranteed investment contracts (GIC). In April 2012, rating agencies downgraded three of the PFA's investment providers resulting in the termination of the related GICs. Two of these contracts contained a make whole provision in which the PFA received approximately \$20,272 of investment earnings that would have been earned had the contract been held until maturity. This resulted in higher than normal investment income totaling \$26,609 for 2012. Since May, the PFA has been investing primarily in U.S. Treasuries, which will result in much lower investment income in the years ahead.

The PFA's rebate due to the Internal Revenue Service decreased by \$21 in 2012 and increased by \$369 in 2011. There weren't any rebate payments in 2012. Rebate payments totaling \$242 were made in 2011. Rebate payments of \$299 were made in 2010 to the IRS. As of year-end, there is \$54 of rebate liability considered current.

The PFA did not issue IDBP bonds in 2012, 2011 or 2010. Standard and Poor's has rated the IDBP "A+". The PFA issued \$9,635 of Capital Financing Program "CFP" (rated A+ by Standard and Poor's) bonds in 2012. The PFA issued \$3,730 of bonds under its CFP in 2011, and did not issue bonds in 2010. In 2011, the Industrial Commission authorized the PFA to utilize the Capital Financing Program to provide loans for political subdivisions impacted by the weather related events of 2011. The PFA issued \$3,009 of bonds in 2012 and \$9,142 in 2011 under the Disaster Loan Program. The State Revolving Fund Loan Program (rated Aaa by Moody's) issues bonds to provide the required match to receive capitalization grants from the EPA. On August 29, 2012, the PFA issued \$37,605 of bonds. Proceeds of the issue were utilized to refund to advance refund \$4,110 of SRF 2003A, \$8,450 of SRF 2003B, \$7,800 of SRF 2004A and \$16,575 SRF 2005A bonds. On August 9, 2011, the PFA issued \$101,210 of bonds. Proceeds of the issue were utilized to provide match for future capitalization grants, to refund \$11,765 of SRF 2001A bonds, and to advance refund \$11,775 of SRF 2003A bonds. No bonds were issued under the SRF program in 2010.

State Revolving Fund expenses were \$4,921 for 2012, \$4,504 for 2011, and \$18,119 for 2010. This is largely due to capitalization grants being required to provide principal forgiveness, which is presented as an expense on the statement of revenues, expenses and changes in fund net assets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

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The growing State Revolving Fund Program helped the PFA's total assets increase \$45,480 to \$641,326 in 2012, and increase \$116,977 to \$595,846 in 2011. The balance sheet indicates that the PFA continues to have adequate resources to provide for bond repayments. Change in net assets of the PFA resulted in an increase of \$50,557 in 2012 and \$29,261 in 2011 providing the PFA with an overall strong financial position. Grant proceeds account for a significant portion of net assets. Federal law provides that grants may only be expended for SRF program purposes. Net assets are also restricted for debt service of bond issues or for the purchase of municipal securities. As of December 31, 2012, and 2011, the PFA had \$55,924 and \$71,654, respectively, of commitments to extend credit.

**REQUIRED FINANCIAL STATEMENTS:**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2012 AND 2011**  
(In Thousands)

**CONDENSED BALANCE SHEETS**  
**DECEMBER 31,**

	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
<b>ASSETS</b>							
CURRENT ASSETS - RESTRICTED	\$ 161,214	\$ 86,099	\$ 41,862	\$ 75,115	87%	\$ 44,237	105.67%
NONCURRENT ASSETS - RESTRICTED	<u>480,112</u>	<u>509,747</u>	<u>437,007</u>	<u>(29,635)</u>	<u>-5.81%</u>	<u>72,740</u>	<u>16.65%</u>
TOTAL ASSETS	<u>\$ 641,326</u>	<u>\$ 595,846</u>	<u>\$ 478,869</u>	<u>\$ 45,480</u>	<u>7.63%</u>	<u>\$ 116,977</u>	<u>24.43%</u>
<b>LIABILITIES</b>							
CURRENT LIABILITIES	\$ 16,821	\$ 15,634	\$ 12,064	\$ 1,187	7.59%	\$ 3,570	29.59%
NONCURRENT LIABILITIES	<u>224,439</u>	<u>230,703</u>	<u>146,557</u>	<u>(6,264)</u>	<u>-2.72%</u>	<u>84,146</u>	<u>57.42%</u>
TOTAL LIABILITIES	<u>241,260</u>	<u>246,337</u>	<u>158,621</u>	<u>(5,077)</u>	<u>-2.06%</u>	<u>87,716</u>	<u>55.30%</u>
<b>NET ASSETS</b>							
UNRESTRICTED	3,986	3,074	3,142	912	29.67%	(68)	-2.16%
RESTRICTED FOR DEBT SERVICE	137,642	89,253	54,406	48,389	54.22%	34,847	64.05%
RESTRICTED FOR LOAN PURPOSES	<u>258,438</u>	<u>257,182</u>	<u>262,700</u>	<u>1,256</u>	<u>0.49%</u>	<u>(5,518)</u>	<u>-2.10%</u>
TOTAL NET ASSETS	<u>400,066</u>	<u>349,509</u>	<u>320,248</u>	<u>50,557</u>	<u>14.47%</u>	<u>29,261</u>	<u>9.14%</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 641,326</u>	<u>\$ 595,846</u>	<u>\$ 478,869</u>	<u>\$ 45,480</u>	<u>7.63%</u>	<u>\$ 116,977</u>	<u>24.43%</u>

*Cash and Investments*

Certain PFA cash and investments, which are included in the restricted current and non-current assets, are restricted for the debt service of bond issues or for the purchase of municipal securities. Additional discussion of these investments can be found at Note 2 to the financial statements.

*Municipal Securities*

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as "municipal securities" and included in the restricted current and non-current assets of the condensed Balance Sheet. These investment securities are primarily city, school district and water district obligations and are pledged to the various bond issues. No losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contain further information regarding municipal securities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

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*Bonds Payable*

In order to provide local political subdivisions with funds to finance projects, the PFA has issued bonds to facilitate the purchase of the political subdivision's municipal securities. The bonds payable are included in the restricted current and non-current liabilities of the preceding statement. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

*Rebate Due to IRS*

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. This liability is included in the current and non-current liabilities. Note 8 to the financial statements contain additional information.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2012 AND 2011**  
(In Thousands)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEARS ENDED DECEMBER 31,**

	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
<b>OPERATING REVENUES</b>							
Investment income	\$ 9,838	\$ 9,626	\$ 9,227	\$ 212	2.20%	\$ 399	4.32%
Grant and set-asides	1,405	762	934	643	84.38%	(172)	-18.42%
Administrative fees and other	1,975	1,876	1,710	99	5.28%	166	9.71%
	<u>13,218</u>	<u>12,264</u>	<u>11,871</u>	<u>954</u>	<u>7.78%</u>	<u>393</u>	<u>3.31%</u>
<b>NONOPERATING REVENUE</b>							
Grant and set-asides	25,135	23,541	24,209	1,594	6.77%	(668)	-2.76%
Investment income	26,609	6,374	6,492	20,235	317.46%	(118)	-1.82%
	<u>51,744</u>	<u>29,915</u>	<u>30,701</u>	<u>21,829</u>	<u>72.97%</u>	<u>(786)</u>	<u>-2.56%</u>
<b>TOTAL REVENUE</b>	<u>64,962</u>	<u>42,179</u>	<u>42,572</u>	<u>22,783</u>	<u>54.02%</u>	<u>(393)</u>	<u>-0.92%</u>
<b>OPERATING EXPENSES</b>							
Interest expense	9,133	8,214	7,761	919	11.19%	453	5.84%
State Revolving Fund expenses	4,921	4,504	18,119	417	9.26%	(13,615)	-75.14%
Rebate (Benefit) due to IRS	(21)	(127)	354	106	-83.46%	(481)	-135.88%
Amortization of bond issue costs	145	116	125	29	25.00%	(9)	-7.20%
Other	227	211	195	16	7.58%	16	8.21%
	<u>14,405</u>	<u>12,918</u>	<u>26,554</u>	<u>1,487</u>	<u>11.51%</u>	<u>(13,636)</u>	<u>-51.35%</u>
<b>CHANGE IN NET ASSETS</b>	<u>50,557</u>	<u>29,261</u>	<u>16,018</u>	<u>21,296</u>	<u>72.78%</u>	<u>13,243</u>	<u>82.68%</u>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>349,509</u>	<u>320,248</u>	<u>304,230</u>	<u>29,261</u>	<u>9.14%</u>	<u>16,018</u>	<u>5.27%</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 400,066</u>	<u>\$ 349,509</u>	<u>\$ 320,248</u>	<u>\$ 50,557</u>	<u>14.47%</u>	<u>\$ 29,261</u>	<u>9.14%</u>

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to PFA operations.

*Grant and set-asides*

Under an agreement with the North Dakota Department of Health, the PFA assists in administering the State Revolving Loan Fund. The grant proceeds are classified as non-operating revenue in the Statement of Revenues, Expenditures and Changes in Net Assets.

The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects. The federal Environmental Protection Agency (EPA) provides capitalization grants. Capitalization grants require that the state provide 20% match which is funded through bonds issued by the PFA.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

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*Economic Factors and Budgetary Information*

Note 1 to the financial statements discusses the PFA's economic dependence on North Dakota political subdivision municipal securities obligations.

As discussed in financial statement Note 1, the PFA, an agency of the Industrial Commission, operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget as a part of the Industrial Commission's budget, which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

*Contacting the North Dakota Public Finance Authority's financial management:*

The information in this report is intended to provide the reader with an overview of the PFA's operations along with the PFA'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 Public Finance Authority, PO Box 5509, Bismarck, ND 58506-5509.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**BALANCE SHEETS**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Restricted		
Cash and cash equivalents	\$ 27,376	\$ 45,644
Interest receivable	4,029	4,754
Investments	110,491	16,625
Municipal securities	19,318	19,076
Total restricted current assets	<u>161,214</u>	<u>86,099</u>
Total current assets	<u>161,214</u>	<u>86,099</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>		
Investments	109,250	136,911
Municipal securities	367,244	368,835
Deferred bond financing costs, net	1,182	1,182
Advance to Bank of North Dakota	2,436	2,819
Total restricted noncurrent assets	<u>480,112</u>	<u>509,747</u>
Total assets	<u>\$ 641,326</u>	<u>\$ 595,846</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 21	\$ 18
Rebate due to IRS	54	-
Bonds payable	14,480	12,460
Interest payable	2,266	3,156
Total current liabilities	<u>16,821</u>	<u>15,634</u>
<b>NONCURRENT LIABILITIES</b>		
Rebate due to IRS	88	163
Bonds payable, net	221,915	227,721
Advance from Bank of North Dakota	2,436	2,819
Total noncurrent liabilities	<u>224,439</u>	<u>230,703</u>
Total liabilities	<u>241,260</u>	<u>246,337</u>
<b>NET ASSETS</b>		
Unrestricted	3,986	3,074
Restricted for debt service	137,642	89,253
Restricted for loan purposes	258,438	257,182
Total net assets	<u>400,066</u>	<u>349,509</u>
Total liabilities and net assets	<u>\$ 641,326</u>	<u>\$ 595,846</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Investment income	\$ 9,838	\$ 9,626
Grant and set-asides	1,405	762
Administrative fees and other	1,975	1,876
	<u>13,218</u>	<u>12,264</u>
<b>OPERATING EXPENSES</b>		
Interest expense	9,133	8,214
State Revolving Fund loan forgiveness	3,041	2,570
State Revolving Fund administration	738	576
State Revolving Fund set-asides	1,142	1,358
Rebate (Benefit) due to IRS	(21)	(127)
Salaries and benefits	159	153
Amortization of bond issue costs	145	116
Operating	63	52
Paying agent fees	5	6
	<u>14,405</u>	<u>12,918</u>
<b>OPERATING LOSS</b>	<u>(1,187)</u>	<u>(654)</u>
<b>NONOPERATING REVENUE</b>		
Grant and set-asides	25,135	23,541
Investment income	26,609	6,374
	<u>51,744</u>	<u>29,915</u>
<b>CHANGE IN NET ASSETS</b>	<b>50,557</b>	29,261
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u><b>349,509</b></u>	<u>320,248</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u><u><b>\$ 400,066</b></u></u>	<u><u><b>\$ 349,509</b></u></u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>
<b>OPERATING ACTIVITIES</b>		
Receipts of administrative fees from customers	\$ 1,975	\$ 1,877
Grant and set-asides	1,405	762
State Revolving Fund loan forgiveness	(3,041)	(2,570)
Payments to service providers	(1,948)	(1,989)
Payments to employees	(159)	(153)
Payment of rebate to IRS	-	(242)
	<u>(1,768)</u>	<u>(2,315)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>		
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Grant and set-asides	25,135	23,541
Interest paid on bonds payable	(14,592)	(8,371)
Bond financing costs	(305)	(656)
Principal payment on advance from Bank of North Dakota	(384)	(848)
Proceeds from bond premiums	3,808	11,750
Proceeds from issuance of bonds payable	50,133	114,081
Principal payments on bonds payable	(52,997)	(36,606)
	<u>10,798</u>	<u>102,891</u>
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Interest received on investments and municipal securities	37,174	15,481
Collection of advance to Bank of North Dakota	384	848
Proceeds from maturities and sales of investments	306,370	154,511
Purchases of investments	(372,575)	(195,811)
Proceeds from maturities of municipal securities	51,963	28,014
Purchases of municipal securities	(50,614)	(59,285)
	<u>(27,298)</u>	<u>(56,242)</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>		
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		
	<u>(18,268)</u>	44,334
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
	<u>45,644</u>	<u>1,310</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
	<u>\$ 27,376</u>	<u>\$ 45,644</u>

**STATEMENTS OF CASH FLOWS – CONTINUED**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**  
(In Thousands)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (1,187)	\$ (654)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Amortization of bond financing costs	145	116
Net amortization (accretion) of premium (discount) on bonds payable	(922)	10,005
Reclassification of investment income and expense to other activities	220	(11,418)
Changes in assets and liabilities:		
Accounts payable	(3)	5
Rebate due IRS	(21)	(369)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (1,768)</u>	<u>\$ (2,315)</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**STATEMENT OF APPROPRIATIONS**  
**TWO YEARS ENDED JUNE 30, 2011 AND SIX MONTHS ENDED DECEMBER 31, 2012**  
**(In Thousands)**

Note: Only appropriations of specific amounts are included in this statement. A reconciliation to the operating expenses on the December 31, 2012 and 2011 statement of revenues and expenses follows:

	2009-2011 Appropriations	7-1-09 12-31-09 Expenditures	1-1-10 12-31-10 Expenditures	1-1-11 6-30-11 Expenditures	Unexpended Appropriations at 6-30-11	2011-2013 Appropriations	7-1-11 12-31-11 Expenditures	1-1-12 12-31-12 Expenditures	Unexpended Appropriations 12-31-12
Salaries and wages	\$ 442	\$ 74	\$ 150	\$ 75	\$ 143	\$ 428	\$ 77	\$ 159	\$ 192
Operating expenses	217	12	38	18	149	226	35	35	156
Total administrative expenses	659	86	188	93	292	654	112	194	348
Equipment	11	-	3	-	8	-	-	-	-
Total expenses	<u>\$ 670</u>	<u>\$ 86</u>	<u>\$ 191</u>	<u>\$ 93</u>	<u>\$ 300</u>	<u>\$ 654</u>	<u>\$ 112</u>	<u>\$ 194</u>	<u>\$ 348</u>

The Public Finance Authority also incurs noninterest expenditures which are not part of the biennial appropriation process. Examples of these expenditures include expenses associated with the issuance and repayment of bonds issued to fund qualified projects. These expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority as provided by Article 10, Section 12 of the North Dakota Constitution.

	<u>2012</u>	<u>2011</u>
Total appropriation expenditures for year ended December 31	\$ 194	\$ 205
Interest expense	9,133	8,214
Depreciation and amortization	145	116
State Revolving Fund administrative fees	4,921	4,504
Rebate due to IRS	(21)	(127)
Administrative and operating expenses paid out of general operating funds - paying agent fees	28	-
	5	6
Total operating expenses	<u>\$ 14,405</u>	<u>\$ 12,918</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**  
**(In Thousands)**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

The North Dakota Public Finance Authority (PFA) was established July 1, 1975, by the North Dakota Legislature, as provided in Chapter 6-09.4 of the North Dakota Century Code, as a separate agency of the State of North Dakota. The purpose of the PFA is to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of municipal securities of the political subdivisions. The PFA has been granted all powers required in order to accomplish this purpose and is under the control and management of the North Dakota Industrial Commission.

*Reporting Entity*

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

Based on the criteria of GASB Statement No. 14 and 39, no organizations were determined to be part of the reporting entity. The PFA is included as a discretely presented component unit within the State of North Dakota's reporting entity.

*Budgetary Process*

The PFA operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the PFA's financial plan for the next two years. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

The Statement of Appropriations has been prepared using the accrual basis of accounting and includes only those expenses for which an appropriation has been established.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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### *Basis of Accounting and Measurement Focus*

The North Dakota Public Finance Authority 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 PFA recovers its costs through administrative charges to municipalities and earnings on administrative funds. The Program revenues include 1) Income from receivables and 2) Administrative fees. The Non Program revenues include 1) Investment income and 2) Income from grants and set-asides.

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

The accompanying financial statements of the North Dakota Public Finance Authority follow 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 No. 20, the PFA follows all applicable GASB Pronouncements as well as following accounting principles generally accepted in the United States of America, as codified by the Financial Accounting Standards Board issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the PFA's policy to use restricted resources first, and then unrestricted resources as they are needed.

### *Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles, 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.

### *Concentration of Credit Risk*

Municipal securities primarily consist of obligations of cities, school districts and water organizations. The PFA performs credit evaluations and, in some instances, municipal securities are collateralized by property and leases. Generally, the PFA maintains a security interest until related receivables are collected. Municipal securities are due under terms corresponding with applicable bonds. All customers are located in the state of North Dakota.

### *Cash and Cash Equivalents*

The PFA considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted cash and cash equivalents.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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### *Investments*

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in fund net assets. A portion of the PFA's investments consists of nonparticipating contracts. These instruments are reported at cost. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted investments.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their moneys invested in various debt securities such as U.S. Treasury securities, U.S. Government Agency securities, tax-exempt obligations of states and political subdivisions, certificates of deposit, and investment contracts.

### *Equipment and Furnishings*

Equipment and furnishings are stated at cost, net of accumulated depreciation. Equipment and furnishings with a cost of \$5,000 or more per unit are capitalized and reported in the accompanying financial statements. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. There is no equipment or furnishings recorded for the years ended December 31, 2012 and 2011.

Expenditures for major additions and improvements that extend the useful lives of equipment and furnishings are capitalized. Routine expenditures for repairs and maintenance are charged to expenses when incurred.

### *Deferred Bond Financing Costs*

Bond issuance costs are being amortized over the life of the bonds using the interest method.

### *Accumulated Unpaid Vacation and Sick Pay*

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Agency. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned based on tenure at the rate of one working day per month of employment. There are no limitations on the amount of sick leave that an employee can accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service under chapter 54-52 of the North Dakota Century Code.

Vacation and sick leave are immaterial as of December 31, 2012 and 2011, and are not accrued.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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### *Restricted Net Assets*

The PFA administers the SRF federal grant programs for the North Dakota Department of Health. Grant proceeds account for a significant portion of net assets. Federal law provides that the grants may only be expended for SRF program purposes. Net assets are also restricted for debt service of bond issues or for the purchase of municipal securities. The PFA follows the CFP and SRF bond indenture for the repayment of restricted net assets.

### *Operating and Non-operating Revenues*

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

### *Administrative Fee Revenue*

All loans originated by the PFA are charged an administration fee. These fees are used to cover the costs incurred in the administration of the loan programs. Income is recorded when the fees are received.

### *Grant and Set-Asides Revenue*

The SRF Program grants, received from the United States Environmental Protection Agency, are to be used to make below-market interest rate loans to political subdivisions for the purpose of financing authorized projects. In addition, the Drinking Water SRF Program is allowed to “set-aside” a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

### *State Revolving Fund Administration Expense*

State Revolving Fund administration expenses are incurred by the PFA and North Dakota Department of Health in administration of the State Revolving Loan Programs.

### *State Revolving Fund Set-Asides Expenses*

The Drinking Water SRF Program is allowed to “set-aside” a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

### *Rebate Due to IRS*

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as rebate, once every five years, to the U.S. Treasury. Annually, rebate is calculated and the liability is accordingly adjusted.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### DEPOSITS

The North Dakota Public Finance Authority is required to maintain its deposits at the Bank of North Dakota. As of December 31, the PFA had the following deposits (amounts in the thousands):

	<b>Bank Balance 2012</b>	<b>Bank Balance 2011</b>
Cash and cash equivalents	\$ 27,376	\$ 45,644
Certificates of deposit	18,062	17,169
Certificates of deposit recorded as advances to Bank of North Dakota	2,436	2,819
Bank investment contracts - Bank of North Dakota	35,128	25,548
Canadian Imperial Bank of Commerce	7,290	4,269
	<hr/>	<hr/>
Total deposits	<u>\$ 90,292</u>	<u>\$ 95,449</u>

#### *Custodial and Concentration Credit Risk*

For a deposit, the custodial credit risk that, in the event of the failure of a depository financial institution, the PFA will not be able to recover collateral securities that are in the possession of an outside party. The PFA's deposits are uncollateralized. All of the deposits, except Canadian Imperial Bank of Commerce, are with the Bank of North Dakota.

#### INVESTMENTS

NDCC 6-09.4-7 authorizes the PFA to invest any funds in the same manner as permitted for investment of funds belonging to the state or the Bank of North Dakota. The PFA does have a formal investment policy. Also, the General Bond Resolution and Master Trust Indenture specify the permitted investments. The PFA follows those stipulations when investing funds.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts may have their moneys invested in various debt securities such as U.S. Treasury securities, U.S. Government Agency securities, guaranteed investment contracts and certificates of deposit. There is no limit on the amount the PFA may invest in any one issuer.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair values of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The PFA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes.

As of December 31, 2012, the following table summarizes investment by investment type and maturity (amounts are in thousands):

Investment Type	Total Fair Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries	\$116,823	\$ 116,823	\$ -	\$ -	\$ -

#### Investments not subject to categorization:

##### Guaranteed Investment Contracts:

MBIA	19,651
Natixis Funding Corp.	22,787
Total Guaranteed Investment Contracts	42,438

Total investments \$159,261

As of December 31, 2011, the following table summarizes investment by investment type and maturity (amounts are in thousands):

Investment Type	Total Fair Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries	\$ -	\$ -	\$ -	\$ -	\$ -

#### Investments not subject to categorization:

##### Guaranteed Investment Contracts:

MBIA	20,789
Natixis Funding Corp.	20,279
GE Funding	28,107
Trinity Funding Company	37,375
Total Guaranteed Investment Contracts	106,550

Total investments \$106,550

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

The PFA’s North Dakota State Revolving Fund Program Master Trust Indenture restricts investments in Guaranteed Investment Contracts (GICs) and Bank Investment Contracts (BICs) issued, at the time the contract is entered into, a long-term debt rating by Moody’s, at least equal to the better of (i) “A” or (ii) the then current rating assigned by Moody’s to the Bonds without regard to credit enhancement for long-term obligations.

### NOTE 3 - MUNICIPAL SECURITIES

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as “municipal securities.” These investment securities are primarily obligations of cities, school districts and water organizations, and are pledged to the various bond issues. Due to the maturity of these securities, a market value is not readily available. The PFA intends to hold these securities to maturity. No losses for market value decline are anticipated and an allowance has not been provided. The PFA had the following municipal securities as of December 31:

	<u>2012</u>	<u>2011</u>
Capital financing program	\$ 37,003	\$ 28,617
State revolving fund program	349,559	359,294
	<u>386,562</u>	<u>387,911</u>
Less current portion	<u>19,318</u>	<u>19,076</u>
	<u>\$ 367,244</u>	<u>\$ 368,835</u>

### NOTE 4 - BONDS PAYABLE

#### *Changes in Bonds Payable*

The following is a summary of changes in bonds payable for the years ended December 31, 2012 and 2011:

Balance, December 31, 2010	\$ 152,701
Issuance of bonds payable	114,081
Principal payments on bonds payable	(37,433)
Net accretion of premiums and discounts on bonds payable	<u>10,832</u>
Balance, December 31, 2011	240,181
Issuance of bonds payable	50,133
Principal payments on bonds payable	(52,997)
Net accretion of premiums and discounts on bonds payable	<u>(922)</u>
Balance, December 31, 2012	<u>\$ 236,395</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### *Bonds Payable*

The bonds of the PFA have been issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

### *Maturities of Bonds Payable*

Maturities of principal and interest on all bonds are as follows:

Years Ending December 31,	Principal	Interest	Total Debt Service
2013	\$ 14,480	\$ 9,665	\$ 24,145
2014	14,755	9,043	23,798
2015	14,475	8,544	23,019
2016	18,730	7,989	26,719
2017	20,278	7,405	27,683
2018-2022	60,785	28,341	89,126
2023-2027	47,785	15,299	63,084
2028-2032	31,015	4,449	35,464
2033-2037	2,545	480	3,025
2038-2041	1,130	95	1,225
Premiums	10,417	(10,417)	-
	\$ 236,395	\$ 80,893	\$ 317,288

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

The following summarizes the PFA's bonds outstanding at December 31, 2012 and 2011:

Description and Due Date	Interest Rate	Original Value	2012	2011
Series 1993-CFP Serial Bonds 6/1/05-6/1/13	4.70-5.75	\$ 7,905	\$ 240	\$ 475
Series 1996-SRF Serial Bonds 10/1/05-10/1/17 (net of premium)	5.10-6.00	29,845	206	207
Series 1998-CFP Serial Bonds 6/1/05-6/1/23 (net of deferred loss on refunding of \$10)	4.20-5.25	9,695	350	891
Series 1998-SRF Serial Bonds 10/1/05-10/1/19 (net of premium)	4.00-5.50	35,965	5,446	5,549
Series 1999 Serial Bonds 4/1/05-4/1/14 (net of deferred loss on refunding of \$5)	10.00	10,285	435	633
Series 1999-CFP Serial Bonds 6/1/05-6/1/23	4.80-8.25	4,530	185	195
Series 2002-CFP Serial Bonds 6/1/04-6/1/28	3.00 - 5.60	1,700	-	1,045
Series 2003-CFP Serial Bonds 6/1/05-6/1/28	2.95 - 5.40	1,495	1,135	1,180
Series 2003-SRF Serial Bonds 10/1/05-10/1/23 (net of premium) (net of deferred loss on refunding of \$140)	2.00 - 5.00	47,250	3,136	18,729
Series 2004-CFP Serial Bonds 6/1/05-6/1/24	2.00 - 4.90	880	325	395
Series 2004-SRF Serial Bonds 10/1/05-10/1/21 (net of premium) (net of deferred loss on refunding of \$142)	2.00 - 4.75	11,790	1,736	9,954
Series 2005-SRF Serial Bonds 10/1/06-10/1/23 (net of premium) (net of deferred loss on refunding of \$86)	3.00 - 5.00	36,210	10,125	28,732

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

Description and Due Date	Interest Rate	Original Value	2012	2011
Series 2006-CFP Serial Bonds 6/1/07-6/1/31	4.25 - 5.00	\$ 1,385	\$ 720	\$ 840
Series 2006-IDBP Serial Bonds 6/1/07-6/1/31	4.00 - 5.00	1,360	<b>1,170</b>	1,205
Series 2008-SRF Serial Bonds 10/1/09-10/1/28 (net of premium) (net of deferred loss on refunding of \$157)	3.25 - 5.50	46,100	<b>37,669</b>	40,653
Series 2008-IDBP Serial Bonds 6/1/09-6/1/33	6.60 - 6.75	2,000	<b>1,850</b>	1,890
Series 2009-CFP Serial Bonds 6/1/10-6/1/34	2.00 - 4.88	2,125	<b>1,930</b>	1,995
Series 2009-IDBP Serial Bonds 6/1/10-6/1/34	3.00 - 6.00	1,500	<b>1,405</b>	1,445
Series 2011-CFP Serial Bonds 6/1/12-6/1/41 Serial Bonds 6/1/14-6/1/17	2.00 - 5.50 2.00*	3,730 9,142	<b>3,605</b> <b>9,947</b>	3,730 9,142
Series 2011-SRF Serial Bonds 10/1/12-10/1/31 (net of premium) (net of deferred loss on refunding of \$1,513)	3.00 - 5.00	101,210	<b>108,335</b>	111,296
Series 2012-SRF Serial Bonds 10/1/12-10/1/25 (net of premium) (net of deferred loss on refunding of \$4,248)	0.24 - 5.00	37,605	<b>36,810</b>	-
Series 2012-CFP Serial Bonds 6/1/13-6/1/41	2.00 - 3.75	9,635	<b>9,635</b>	-
			<b>\$ 236,395</b>	<b>\$ 240,181</b>

\*Bonds are at a variable rate. The variable rate is adjusted monthly to the greater of (a) three-month LIBOR plus one percent or (b) two percent, or at such other rate the Executive Director may approve. The rate as of December 31, 2012 is presented.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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The PFA issued \$19,705 of revenue bonds (Series 2012A SRF Bonds) with an average interest rate of 4.52 percent on August 29, 2012. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2012, \$20,685 of bonds outstanding is considered defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$2,093. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 13 years by \$1,617 and resulted in an economic gain of \$1,479.

The PFA issued \$17,900 of revenue bonds (Series 2012B SRF Bonds) with an average interest rate of 1.60 percent on August 29, 2012. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2012, \$16,250 of bonds outstanding is considered defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$2,155. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 9 years by \$1,196 and resulted in an economic gain of \$1,138.

The PFA issued \$23,540 of revenue bonds (Series 2011A SRF Bonds) with an average interest rate of 4.48 percent on August 9, 2011. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2012, \$11,775 of bonds outstanding is considered defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$1,664. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 11 years by \$3,412 and resulted in an economic gain of \$2,066.

### NOTE 5 - ADVANCE FROM BANK OF NORTH DAKOTA

#### *Changes in Advance from Bank of North Dakota*

The following is a summary of changes in advance from the Bank of North Dakota for the years ended December 31, 2012 and 2011:

Balance, December 31, 2010	\$ 3,668
Principal payments on advance from Bank of North Dakota	(849)
Balance, December 31, 2011	<u>2,819</u>
Principal payments on advance from Bank of North Dakota	<u>(384)</u>
Balance, December 31, 2012	<u>\$ 2,435</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### *Maturities of Advance from Bank of North Dakota*

Maturities of principal and interest on the advance are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ -	\$ 69	\$ 69
2014	513	49	562
2015	1,922	14	1,936
	<u>\$ 2,435</u>	<u>\$ 132</u>	<u>\$ 2,567</u>

### **NOTE 6 - PENSION PLAN**

The North Dakota Public Finance Authority participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

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

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

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The North Dakota Public Finance Authority has implemented a salary reduction agreement and is currently contributing the employee's share. The North Dakota Public Finance Authority is required to contribute 5.12% of each participant's salary as the employer's share. In addition to the 5.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a pre-funded retiree health

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The North Dakota Public Finance Authority's required and actual contributions to NDPERS were \$6, \$5 and \$4 for the years ended December 31, 2012, 2011, and 2010, respectively.

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

**NOTE 7 - STATE REVOLVING LOAN FUND**

Under an agreement with the North Dakota Department of Health, the PFA assists in administering the State Revolving Loan Fund. The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects.

The federal Environmental Protection Agency (EPA) provides capitalization grants. Capitalization grants require that the state provide 20% match which is funded through bonds issued by the PFA.

As of December 31, the following Loan Fund transactions had occurred:

	<u>2012</u>	<u>2011</u>
Municipal securities purchased	\$ 35,556	\$ 42,492
EPA grant funds received	26,451	24,161

**NOTE 8 - REBATE DUE TO IRS**

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. A detail of the cumulative rebate at December 31, 2012 is as follows:

	<u>2012</u>	<u>2011</u>
1996A SRF bonds	\$ 5	\$ 4
1998A SRF bonds	65	56
2003A SRF bonds	5	41
2005A SRF bonds	67	62
Rebate due to IRS	142	163
Current rebate due to IRS	(54)	-
Long-term rebate due to IRS	<u>\$ 88</u>	<u>\$ 163</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 9 - RELATED PARTY TRANSACTIONS**

All cash accounts of the PFA are deposited in the Bank of North Dakota. All investments are under the safekeeping of the Bank of North Dakota. The Bank of North Dakota acts as paying agent for all bonds and as trustee for the 1999 Bonds and the 1996, 1998, 2003, 2004, 2005, 2008, 2011 and 2012 State Revolving Fund Bonds.

The PFA had the following transactions with related parties summarized as follows:

	<u>2012</u>	<u>2011</u>
Bank of North Dakota		
Cash and cash equivalents - restricted	\$ 27,376	\$ 45,644
Interest receivable	2	3
Certificates of deposit recorded as investments (no current portion)	18,062	17,169
Municipal securities	914	1,095
Advance to/from Bank of North Dakota (1)	2,436	2,819
Bank investment contract (2)	35,128	25,548
Bond Payable (3)	9,947	9,142
Expenses		
Registrar, paying agent and trustee fees	113	112
Account analysis	2	2
Treasury fees	3	1
Letter of credit fees	92	38
Office of the Attorney General		
Legal fees	28	23
Information Technology Department		
Telecommunications and data	4	2

Notes were purchased by the Bank of North Dakota to fund required reserve funds established by the following series resolutions. The proceeds are invested in certificates of deposit with the Bank of North Dakota. Maturities and interest rates of the bonds and certificates of deposit coincide. The entire amount is non-current. (See Note 5).

	<u>2012</u>	<u>2011</u>
CFP 1993	\$ 1,025	\$ 1,025
CFP 1996	-	204
CFP 1997	-	180
1999 A/B	1,410	1,410
	<u>\$ 2,435</u>	<u>\$ 2,819</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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- (1). The bank investment contract in conjunction with the SRF 2001A bond issue was awarded to the Bank of North Dakota. The investment contract is at a fixed rate and matures on October 1, 2021.
- (2). Bonds Payable were issued to the Bank of North Dakota to fund disaster loans to political subdivisions. The entire amount is non-current. (See Note 4).

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

Amounts passed through from the State Department of Health from federal grantor agencies are subject to audit and adjustment by the federal grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor will be recognized in the year determined.

The PFA is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The PFA's exposure to credit loss is represented by the contractual amount of these commitments. The PFA follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Commitments to extend credit totaled \$55,924 and \$71,654 as of December 31, 2012 and 2011, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The PFA purchased letters of credit from the Bank of North Dakota in order to fund the reserves for the Capital Financing Program Bonds. As of December 31, 2012, \$4,252 of credit was available through these letters of credit and no funds have been advanced.

### NOTE 11 - RISK MANAGEMENT

The PFA 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 per person and \$1,000 per occurrence.

The PFA also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The PFA 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 PFA with blanket fidelity bond coverage in the amount of \$500 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

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The PFA, as a contributor to RMF, 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.

### NOTE 12 - FUTURE GASB PRONOUNCEMENTS

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 , *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 , *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**

***SUPPLEMENTARY INFORMATION***

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2012**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Restricted				
Restricted cash and cash equivalents	\$ 15,737	\$ 11,517	\$ 122	\$ 27,376
Interest receivable	2,016	1,739	274	4,029
Investments	63,647	46,665	179	110,491
Municipal securities	9,967	7,801	1,550	19,318
Total restricted current assets	<u>91,367</u>	<u>67,722</u>	<u>2,125</u>	<u>161,214</u>
Total current assets	<u>91,367</u>	<u>67,722</u>	<u>2,125</u>	<u>161,214</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>				
Investments	50,189	59,061	-	109,250
Municipal securities	160,546	171,245	35,453	367,244
Deferred bond financing costs, net	549	623	10	1,182
Advance to Bank of North Dakota	-	-	2,436	2,436
Total restricted noncurrent assets	<u>211,284</u>	<u>230,929</u>	<u>37,899</u>	<u>480,112</u>
Total assets	<u>\$ 302,651</u>	<u>\$ 298,651</u>	<u>\$ 40,024</u>	<u>\$ 641,326</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1	\$ 1	\$ 19	\$ 21
Rebate due to IRS	54	-	-	54
Bonds payable	7,995	5,115	1,370	14,480
Interest payable	868	1,252	146	2,266
Total current liabilities	<u>8,918</u>	<u>6,368</u>	<u>1,535</u>	<u>16,821</u>
<b>NONCURRENT LIABILITIES</b>				
Rebate due to IRS	-	88	-	88
Bonds payable, net	82,130	108,224	31,561	221,915
Advance from Bank of North Dakota	-	-	2,436	2,436
Total noncurrent liabilities	<u>82,130</u>	<u>108,312</u>	<u>33,997</u>	<u>224,439</u>
Total liabilities	<u>91,048</u>	<u>114,680</u>	<u>35,532</u>	<u>241,260</u>
<b>NET ASSETS</b>				
Unrestricted	-	-	3,986	3,986
Restricted for debt service	61,927	75,209	506	137,642
Restricted for loan purposes	149,676	108,762	-	258,438
Total net assets	<u>211,603</u>	<u>183,971</u>	<u>4,492</u>	<u>400,066</u>
Total liabilities and net assets	<u>\$ 302,651</u>	<u>\$ 298,651</u>	<u>\$ 40,024</u>	<u>\$ 641,326</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2011**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Restricted				
Restricted cash and cash equivalents	\$ 25,100	\$ 19,945	\$ 599	\$ 45,644
Interest receivable	2,556	2,022	176	4,754
Investments	9,543	6,905	177	16,625
Municipal securities	10,109	7,563	1,404	19,076
Total restricted current assets	<u>47,308</u>	<u>36,435</u>	<u>2,356</u>	<u>86,099</u>
Total current assets	<u>47,308</u>	<u>36,435</u>	<u>2,356</u>	<u>86,099</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>				
Investments	64,366	72,545	-	136,911
Municipal securities	170,553	171,069	27,213	368,835
Deferred bond financing costs, net	521	615	46	1,182
Advance to Bank of North Dakota	-	-	2,819	2,819
Total restricted noncurrent assets	<u>235,440</u>	<u>244,229</u>	<u>30,078</u>	<u>509,747</u>
Total assets	<u>\$ 282,748</u>	<u>\$ 280,664</u>	<u>\$ 32,434</u>	<u>\$ 595,846</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ -	\$ 1	\$ 17	\$ 18
Rebate due to IRS	-	-	-	-
Bonds payable	7,241	3,799	1,420	12,460
Interest payable	1,220	1,845	91	3,156
Total current liabilities	<u>8,461</u>	<u>5,645</u>	<u>1,528</u>	<u>15,634</u>
<b>NONCURRENT LIABILITIES</b>				
Rebate due to IRS	33	130	-	163
Bonds payable, net	89,896	114,185	23,640	227,721
Advance from Bank of North Dakota	-	-	2,819	2,819
Total noncurrent liabilities	<u>89,929</u>	<u>114,315</u>	<u>26,459</u>	<u>230,703</u>
Total liabilities	<u>98,390</u>	<u>119,960</u>	<u>27,987</u>	<u>246,337</u>
<b>NET ASSETS</b>				
Unrestricted	-	-	3,074	3,074
Restricted for debt service	36,282	51,598	1,373	89,253
Restricted for loan purposes	148,076	109,106	-	257,182
Total net assets	<u>184,358</u>	<u>160,704</u>	<u>4,447</u>	<u>349,509</u>
Total liabilities and net assets	<u>\$ 282,748</u>	<u>\$ 280,664</u>	<u>\$ 32,434</u>	<u>\$ 595,846</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET**  
**ASSETS**  
**YEAR ENDED DECEMBER 31, 2012**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING REVENUES</b>				
Investment income	\$ 4,469	\$ 4,547	\$ 822	\$ 9,838
Grant and set-asides	335	1,070	-	1,405
Administrative fees and other	884	900	191	1,975
	<u>5,688</u>	<u>6,517</u>	<u>1,013</u>	<u>13,218</u>
<b>OPERATING EXPENSES</b>				
Interest expense	3,455	4,643	1,035	9,133
State Revolving Fund loan forgiveness	545	2,496	-	3,041
State Revolving Fund administration	659	79	-	738
State Revolving Fund set-asides	-	1,142	-	1,142
Rebate (Benefit) due to IRS	21	(42)	-	(21)
Salaries and benefits	-	-	159	159
Amortization of bond issue costs	56	59	30	145
Operating	-	-	63	63
Paying agent fees	-	-	5	5
	<u>4,736</u>	<u>8,377</u>	<u>1,292</u>	<u>14,405</u>
<b>OPERATING GAIN (LOSS)</b>	<u>952</u>	<u>(1,860)</u>	<u>(279)</u>	<u>(1,187)</u>
<b>NONOPERATING REVENUE</b>				
Grant and set-asides	7,950	17,185	-	25,135
Investment income	18,343	7,942	324	26,609
	<u>26,293</u>	<u>25,127</u>	<u>324</u>	<u>51,744</u>
<b>CHANGE IN NET ASSETS</b>	27,245	23,267	45	50,557
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>184,358</u>	<u>160,704</u>	<u>4,447</u>	<u>349,509</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 211,603</u>	<u>\$ 183,971</u>	<u>\$ 4,492</u>	<u>\$ 400,066</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET**  
**ASSETS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING REVENUES</b>				
Investment income	\$ 4,570	\$ 4,283	\$ 773	\$ 9,626
Grant and set-asides	99	663	-	762
Administrative fees and other	884	822	170	1,876
	<u>5,553</u>	<u>5,768</u>	<u>943</u>	<u>12,264</u>
<b>OPERATING EXPENSES</b>				
Interest expense	3,218	4,152	844	8,214
State Revolving Fund loan forgiveness	472	2,098	-	2,570
State Revolving Fund administration	505	71	-	576
State Revolving Fund set-asides	-	1,358	-	1,358
Rebate (Benefit) due to IRS	29	(156)	-	(127)
Salaries and benefits	-	-	153	153
Amortization of bond issue costs	58	52	6	116
Operating	-	-	52	52
Paying agent fees	-	-	6	6
	<u>4,282</u>	<u>7,575</u>	<u>1,061</u>	<u>12,918</u>
<b>OPERATING GAIN (LOSS)</b>	<u>1,271</u>	<u>(1,807)</u>	<u>(118)</u>	<u>(654)</u>
<b>NONOPERATING REVENUE</b>				
Grant and set-asides	5,450	18,091	-	23,541
Investment income	3,440	2,781	153	6,374
	<u>8,890</u>	<u>20,872</u>	<u>153</u>	<u>29,915</u>
<b>CHANGE IN NET ASSETS</b>	10,161	19,065	35	29,261
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>174,197</u>	<u>141,639</u>	<u>4,412</u>	<u>320,248</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 184,358</u>	<u>\$ 160,704</u>	<u>\$ 4,447</u>	<u>\$ 349,509</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING ACTIVITIES</b>				
Receipts of administrative fees from customers	\$ 884	\$ 900	\$ 191	\$ 1,975
Grant and set-asides	335	1,070	-	1,405
State Revolving Fund loan forgiveness	(545)	(2,496)	-	(3,041)
Payments to service providers	(659)	(1,221)	(68)	(1,948)
Payments to employees	-	-	(159)	(159)
Payment of rebate to IRS	-	-	-	-
<b>NET CASH (USED) PROVIDED FOR OPERATING ACTIVITIES</b>	<b>15</b>	<b>(1,747)</b>	<b>(36)</b>	<b>(1,768)</b>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Grant and set-asides	7,950	17,185	-	25,135
Interest paid on bonds payable	(5,873)	(7,749)	(970)	(14,592)
Bond financing costs	(178)	(133)	6	(305)
Principal payment on advance from Bank of North Dakota	-	-	(384)	(384)
Proceeds from bond premiums	711	3,097	-	3,808
Proceeds from issuance of bonds payable	21,560	16,045	12,528	50,133
Principal payments on bonds payable	(27,122)	(21,208)	(4,667)	(52,997)
<b>NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>	<b>(2,952)</b>	<b>7,237</b>	<b>6,513</b>	<b>10,798</b>
<b>INVESTING ACTIVITIES</b>				
Interest received on investments and municipal securities	23,352	12,772	1,050	37,174
Collection of advance to Bank of North Dakota	-	-	384	384
Proceeds from maturities and sales of investments	176,592	129,423	355	306,370
Purchases of investments	(216,519)	(155,699)	(357)	(372,575)
Proceeds from maturities of municipal securities	18,210	27,137	6,616	51,963
Purchases of municipal securities	(8,061)	(27,551)	(15,002)	(50,614)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(6,426)</b>	<b>(13,918)</b>	<b>(6,954)</b>	<b>(27,298)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,363)</b>	<b>(8,428)</b>	<b>(477)</b>	<b>(18,268)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>25,100</b>	<b>19,945</b>	<b>599</b>	<b>45,644</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 15,737</b>	<b>\$ 11,517</b>	<b>\$ 122</b>	<b>\$ 27,376</b>

**COMBINING STATEMENT OF CASH FLOWS – CONTINUED**  
**YEAR ENDED DECEMBER 31, 2012**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES</b>				
Operating gain (loss)	\$ 952	\$ (1,860)	\$ (279)	\$ (1,187)
Adjustments to reconcile operating loss to net cash used for operating activities				
Amortization of bond financing costs	56	59	30	145
Net amortization (accretion) of premium (discount) on bonds payable	(1,450)	518	10	(922)
Reclassification of investment income and expense to other activities	437	(422)	205	220
Changes in assets and liabilities				
Accounts payable	(1)	-	(2)	(3)
Rebate due IRS	21	(42)	-	(21)
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ 15</b>	<b>\$ (1,747)</b>	<b>\$ (36)</b>	<b>\$ (1,768)</b>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(In Thousands)**

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>OPERATING ACTIVITIES</b>				
Receipts of administrative fees from customers	\$ 884	\$ 822	\$ 171	\$ 1,877
Grant and set-asides	99	663	-	762
State Revolving Fund loan forgiveness	(472)	(2,098)	-	(2,570)
Payments to service providers	(505)	(1,429)	(55)	(1,989)
Payments to employees	-	-	(153)	(153)
Payment of rebate to IRS	(242)	-	-	(242)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>(236)</u>	<u>(2,042)</u>	<u>(37)</u>	<u>(2,315)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Grant and set-asides	5,450	18,091	-	23,541
Interest paid on bonds payable	(3,261)	(4,285)	(825)	(8,371)
Bond financing costs	(312)	(344)	-	(656)
Principal payment on advance from Bank of North Dakota	-	-	(848)	(848)
Proceeds from bond premiums	5,558	6,192	-	11,750
Proceeds from issuance of bonds payable	48,031	53,179	12,871	114,081
Principal payments on bonds payable	(15,312)	(18,373)	(2,921)	(36,606)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<u>40,154</u>	<u>54,460</u>	<u>8,277</u>	<u>102,891</u>
<b>INVESTING ACTIVITIES</b>				
Interest received on investments and municipal securities	7,806	6,804	871	15,481
Collection of advance to Bank of North Dakota	-	-	848	848
Proceeds from maturities and sales of investments	67,967	81,134	5,410	154,511
Purchases of investments	(87,279)	(106,615)	(1,917)	(195,811)
Proceeds from maturities of municipal securities	11,891	13,242	2,881	28,014
Purchases of municipal securities	(15,393)	(27,161)	(16,731)	(59,285)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(15,008)</u>	<u>(32,596)</u>	<u>(8,638)</u>	<u>(56,242)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	24,910	19,822	(398)	44,334
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>190</u>	<u>123</u>	<u>997</u>	<u>1,310</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 25,100</u>	<u>\$ 19,945</u>	<u>\$ 599</u>	<u>\$ 45,644</u>

**COMBINING STATEMENT OF CASH FLOWS – CONTINUED**  
**YEAR ENDED DECEMBER 31, 2011**  
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES</b>				
Operating gain (loss)	\$ 1,271	\$ (1,807)	\$ (118)	\$ (654)
Adjustments to reconcile operating loss to net cash used for operating activities				
Amortization of bond financing costs	58	52	6	116
Net amortization (accretion) of premium (discount) on bonds payable	4,936	5,056	13	10,005
Reclassification of investment income and expense to other activities	(6,288)	(5,188)	58	(11,418)
Changes in assets and liabilities				
Accounts payable	-	1	4	5
Rebate due IRS	(213)	(156)	-	(369)
	<u>(213)</u>	<u>(156)</u>	<u>-</u>	<u>(369)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>\$ (236)</u>	<u>\$ (2,042)</u>	<u>\$ (37)</u>	<u>\$ (2,315)</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2012**

**EXHIBIT A-1**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures (In Thousands)
<b>ENVIRONMENTAL PROTECTION AGENCY</b>		
Passed Through the North Dakota Department of Health		
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 7,851
ARRA - Capitalization Grants for Clean Water State Revolving Funds	ARRA - 66.458	434
Capitalization Grants for Drinking Water State Revolving Funds	66.468	17,589
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	ARRA - 66.468	577
Total Environmental Protection Agency		<u>\$ 26,451</u>

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

**NOTE 1 - AGENCY OR PASS-THROUGH NUMBER**

The pass-through entity has not provided us with the identifying number on all programs; therefore, they are not included in this schedule.

**NOTE 2 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the North Dakota Public Finance Authority provided federal awards to sub-recipients as follows:

The above awards consist entirely of loans advanced to the sub-recipients.

The North Dakota Public Finance Authority also has outstanding loan balances to sub-recipients from prior years. These balances are not included on the accompanying schedule of expenditures and federal awards because the federal government imposes no continuing compliance requirements on the sub-recipient.

Program Title	Federal CFDA Number	(In Thousands)
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 7,516
ARRA - Capitalization Grants for Clean Water State Revolving Funds	ARRA - 66.458	178
Capitalization Grants for Drinking Water State Revolving Funds	66.468	16,609
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	ARRA - 66.468	533
		<u>\$ 24,836</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY  
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2012**

**EXHIBIT A-2**

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**A. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

EXHIBIT A-3

**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**

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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 business-type activities of the North Dakota Public Finance Authority, a component unit of the State of North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise North Dakota Public Finance Authority's basic financial statements and have issued our report thereon dated March 4, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered North Dakota Public Finance Authority'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 North Dakota Public Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Public Finance Authority'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 charges 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

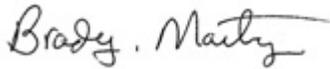
deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Dakota Public Finance Authority'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 is 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 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 communications is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

March 4, 2013



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

EXHIBIT A-4

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited North Dakota Public Finance Authority's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the North Dakota Public Finance Authority's major federal programs for the year ended December 31, 2012. North Dakota Public Finance Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, North Dakota Public Finance Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended December 31, 2012.

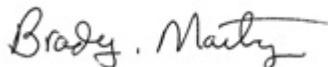
**Report on Internal Control Over Compliance**

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

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

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

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



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

March 4, 2013

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED DECEMBER 31, 2012**

**EXHIBIT A-5**

**A. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  x  </u> no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)?

       yes        x   no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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66.458	Capitalization Grants for Clean Water State Revolving Funds
66.458 - ARRA	ARRA - Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$793,505

Auditee qualified as a low-risk auditee?

  x   yes             no

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

There are no findings which are required to be reported under this section.

**C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS.**

There are no findings or questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

EXHIBIT B-1

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY  
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED DECEMBER 31, 2012**

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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. The items and our responses are as follows:

**Audit Report Communications:**

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

An unqualified opinion was issued on the 2012 financial statements.

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

Yes - A review was made of Chapter 6-09.4 and other pertinent chapters of the North Dakota Century Code and we felt the Authority operated within the statutes, laws, rules and regulations under which it was created.

**3. Was internal control adequate and functioning effectively?**

Yes.

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

No.

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

This question is not applicable as there were no findings reported in the 2011 audit.

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

No.

**Audit Committee Communications:**

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

None.

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

None.

- 3. Identify any significant audit adjustments.**

None.

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

None.

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

None.

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

None.

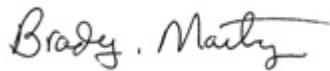
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None.

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

Based on the audit procedures performed, the Authority has one critical information technology system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management of the North Dakota Public Finance Authority and the U.S. Environmental Protection Agency, 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

March 4, 2013

**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

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March 4, 2013

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Public Finance Authority, a component unit of the State of North Dakota for the year ended December 31, 2012, and have issued our report thereon dated March 4, 2013. Professional standards require that we provide you with the following information related to our audit.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information on December 20, 2011. 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 Public Finance Authority 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 2012. 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.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected or corrected misstatements.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 4, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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*

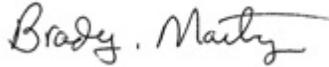
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

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

This information is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review, management of the North Dakota Public Finance Authority and U.S. Environmental Protection Agency 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 cursive script that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota