Financial Statements
December 31, 2016 and 2015

North Dakota Public Finance Authority (A Component Unit of the State of North Dakota)

NORTH DAKOTA PUBLIC FINANCE AUTHORITY

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of North Dakota Public Finance Authority, a component unit of the State of North Dakota as of and for the years ended December 31, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Public Finance Authority, as of December 31, 2016 and 2015, and the respective changes in financial position, where applicable, cash flows thereof and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity
As discussed in Note 1, the financial statements of the North Dakota Public Finance Authority are intended to present the financial position, changes in financial position, and cash flows of only the portion of the State of North Dakota that is attributable to the North Dakota Public Finance Authority. They do not purport to, and do not, present fairly the financial position of the State of North Dakota, as of December 31, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of net pension liability, and schedule of employer contribution information on pages 4 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.

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 financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the 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 basic 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 basic financial statements or to the basic 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 are 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 a report dated March 2, 2017 on our consideration of the North Dakota Public Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Public Finance Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 2, 2017

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, 2016, 2015 and 2014. 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) increased 4.5% from $679,564 in 2015 to $709,928 in 2016; they increased 29.6% from $524,245 in 2014 to $679,564 in 2015. SRF loans are funded with grant revenues and bond proceeds, which are invested until loans are funded. In 2016, there was $81,006 of SRF loans funded, $134,883 in 2015 and $85,120 in 2014. 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 decreased by 11% in 2016 to $188,447 due to loans being funded, and increased 22% in 2015 to $212,626 due to bond proceeds.

There were rebate payments of $8 made to the Internal Revenue Service in 2016. There were no rebate payments made in 2015 and $27 of rebate payments was made in 2014. As of year-end, $1 of the rebate liability is considered current.

In February 2016, Standard and Poor's downgraded both the Capital Financing Program "CFP" and Industrial Development Bond Program "IDBP" from AA to A+. The PFA did not issue CFP bonds in 2016. CFP bonds of $65,845 were issued in 2015, and $41,840 in 2014. 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. Under the Disaster Loan Program, the PFA did not sell any bonds in 2016 or 2015. The PFA issued $725 of disaster bonds in 2014. The State Revolving Fund Loan Program (rated Aaa by Moody's and AAA by S&P) issues bonds to provide the required match to receive capitalization grants from the EPA. The PFA issued $16,405 of SRF bonds in 2016, and $119,195 in 2015. The PFA did not issue SRF bonds in 2014.

State Revolving Fund expenses were $5,690 for 2016, $4,314 for 2015 and $4,220 for 2014. 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 position.

Total assets decreased $13,720 to $929,784 in 2016, and increased $204,486 to $943,504 in 2015. The balance sheet indicates that the PFA continues to have adequate resources to provide for bond repayments. Change in net position of the PFA resulted in an increase of $16,939 in 2016 and $19,561 in 2015 providing the PFA with an overall strong financial position. Grant proceeds account for a significant portion of net position. Federal law provides that grants may only be expended for SRF program purposes. Net position is also restricted for debt service of bond issues or for the purchase of municipal securities. As of December 31, 2016, and 2015, the PFA had $101,279 and $182,301, respectively, of commitments to extend credit.

(In Thousands)

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 Statements of Net Position summarize the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the PFA. The Statements of Revenues, Expenses and Changes in Net Position 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.

CONDENSED STATEMENT OF NET POSITION
DECEMBER 31,

				2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
ASSETS							
CURRENT ASSETS - RESTRICTED	**$ 150,657**	$ 200,180	$ 137,692	$ (49,523)	-25%	$ 62,488	45.38%
NONCURRENT ASSETS - RESTRICTED	**779,127**	743,324	601,176	35,803	5%	142,148	23.64%
OTHER ASSETS	**-**	-	150	-	-	(150)	-100.00%
TOTAL ASSETS	**$ 929,784**	$ 943,504	$ 739,018	$ (13,720)	-1.45%	$ 204,486	27.67%
DEFERRED OUTFLOWS OF RESOURCES	**$ 5,251**	$ 4,224	$ 4,783	$ 1,027	24.31%	$ (559)	-11.69%
LIABILITIES							
CURRENT LIABILITIES	**$ 27,510**	$ 27,212	$ 20,116	$ 298	1.10%	$ 7,096	35.28%
NONCURRENT LIABILITIES	**426,578**	456,499	279,230	(29,921)	-6.55%	177,269	63.48%
TOTAL LIABILITIES	**454,088**	483,711	299,346	(29,623)	-6.12%	184,365	61.59%
DEFERRED INFLOWS OF RESOURCES	**$ 19**	$ 28	$ 27	$ (9)	-32.14%	$ 1	0.00%
NET POSITION							
UNRESTRICTED	**$ 2,109**	$ 2,103	$ 1,434	$ 6	0.29%	$ 669	46.65%
RESTRICTED FOR DEBT SERVICE	**141,000**	152,588	120,463	(11,588)	-7.59%	32,125	26.67%
RESTRICTED FOR LOAN PURPOSES	**337,819**	309,298	322,531	28,521	9.22%	(13,233)	-4.10%
TOTAL NET POSITION	**$ 480,928**	$ 463,989	$ 444,428	$ 16,939	3.65%	$ 19,561	4.40%

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 and water district obligations and are pledged to the various bond issues. No future 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.

(In Thousands)

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 contains additional information.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31,

				2016 vs. 2015		2015 vs. 2014	
	2016	**2015**	**2014**	**Dollar Variance**	**Percentage Variance**	**Dollar Variance**	**Percentage Variance**
OPERATING REVENUES							
Investment income	**$ 19,058**	$ 16,332	$ 12,837	$ 2,726	16.69%	$ 3,495	27.23%
Grant and set-asides	**879**	831	1,261	48	5.78%	(430)	-34.10%
Administrative fees and other	**2,735**	2,396	2,052	339	14.15%	344	16.76%
	22,672	19,559	16,150	3,113	15.92%	3,409	21.11%
NONOPERATING REVENUE							
Grant and set-asides	**14,165**	14,592	16,614	(427)	-2.93%	(2,022)	-12.17%
Investment income	**4,819**	5,169	5,922	(350)	-6.77%	(753)	-12.72%
	18,984	19,761	22,536	(777)	-3.93%	(2,775)	-12.31%
TOTAL REVENUE	**41,656**	39,320	38,686	2,336	5.94%	634	1.64%
OPERATING EXPENSES							
Interest expense	**18,546**	15,912	11,697	2,634	16.55%	4,215	36.03%
State Revolving Fund expenses	**5,690**	4,314	4,220	1,376	31.90%	94	2.23%
Rebate (Benefit) due to IRS	**3**	7	(27)	(4)	-57.14%	34	-125.93%
Amortization of bond issue costs	**196**	272	-	(76)	100.00%	272	100.00%
Other	**282**	382	325	(100)	-26.18%	57	17.54%
	24,717	20,887	16,215	3,830	18.34%	4,672	28.81%
EXTRAORDINARY ITEM	**-**	1,128	-	(1,128)	100.00%	1,128	100.00%
CHANGE IN NET POSITION	**16,939**	19,561	22,471	(2,622)	-13.40%	(2,910)	-12.95%
TOTAL NET POSITION, BEGINNING OF YEAR	**463,989**	444,428	421,957	19,561	4.40%	22,471	5.33%
TOTAL NET POSITION, END OF YEAR	**$ 480,928**	$ 463,989	$ 444,428	$ 16,939	3.65%	$ 19,561	4.40%

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 Position.

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.

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
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
ASSETS		
CURRENT ASSETS		
Restricted		
Cash and cash equivalents	**$ 26,015**	$ 46,346
Interest receivable	**5,394**	4,996
Investments	**89,684**	122,207
Municipal securities	**29,564**	26,631
Total restricted current assets	**150,657**	200,180
Total current assets	**150,657**	200,180
NONCURRENT ASSETS - RESTRICTED		
Investments	**98,763**	90,419
Municipal securities	**680,364**	652,905
Total restricted noncurrent assets	**779,127**	743,324
Total assets	**$ 929,784**	$ 943,504
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	**$ 5,201**	$ 4,196
Derived from pension	**50**	28
Total deferred outflows of resources	**$ 5,251**	$ 4,224
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ 28**	$ 139
Rebate due to IRS	**1**	6
Bonds payable	**23,905**	23,230
Interest payable	**3,576**	3,837
Total current liabilities	**27,510**	27,212
NONCURRENT LIABILITIES		
Rebate due to IRS	**12**	12
Bonds payable	**426,407**	456,365
Net pension liablity	**159**	122
Total noncurrent liabilities	**426,578**	456,499
Total liabilities	**$ 454,088**	$ 483,711
DEFERRED INFLOWS OF RESOURCES	`	
Derived from pension	**$ 19**	$ 28
Total deferred inflows of resources	**$ 19**	$ 28
NET POSITION		
Unrestricted	**$ 2,109**	$ 2,103
Restricted for debt service	**141,000**	152,588
Restricted for loan purposes	**337,819**	309,298
Total net position	**$ 480,928**	$ 463,989

See Notes to Financial Statements

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
OPERATING REVENUES		
Investment income	**$ 19,058**	$ 16,332
Grant and set-asides	**879**	831
Administrative fees and other	**2,735**	2,396
	22,672	19,559
OPERATING EXPENSES		
Interest expense	**18,546**	15,912
State Revolving Fund loan forgiveness	**3,349**	2,180
State Revolving Fund administration	**2,100**	1,917
State Revolving Fund set-asides	**241**	217
Rebate (Benefit) due to IRS	**3**	7
Salaries and benefits	**234**	217
Bond issue costs	**196**	272
Operating	**46**	163
Paying agent fees	**2**	2
	24,717	20,887
OPERATING LOSS	**(2,045)**	(1,328)
NONOPERATING REVENUE		
Grant and set-asides	**14,165**	14,592
Investment income	**4,819**	5,169
	18,984	19,761
EXTRAORDINARY ITEM		
Loan modification	**-**	1,128
CHANGE IN NET POSITION	**16,939**	19,561
TOTAL NET POSITION, BEGINNING OF YEAR	**463,989**	444,428
TOTAL NET POSITION, END OF YEAR	**$ 480,928**	$ 463,989

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
OPERATING ACTIVITIES		
Receipts of administrative fees from customers	**$ 2,735**	$ 2,396
Grant and set-asides	**879**	831
Payments to service providers	**(2,493)**	(2,190)
Payments to employees	**(234)**	(230)
Payment of rebate to IRS	**(8)**	-
NET CASH FROM OPERATING ACTIVITIES	**879**	807
NONCAPITAL FINANCING ACTIVITIES		
Grant and set-asides	**14,165**	14,592
Interest paid on bonds payable	**(22,315)**	(14,629)
Bond financing costs	**(196)**	(272)
Proceeds from bond premiums	**3,740**	19,384
Proceeds from issuance of bonds payable	**16,405**	185,040
Principal payments on bonds payable	**(46,926)**	(20,885)
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	**(35,127)**	183,230
INVESTING ACTIVITIES		
Interest received on investments and municipal securities	**23,479**	20,847
Increase in other assets	**-**	150
Proceeds from maturities and sales of investments	**285,108**	136,966
Purchases of investments	**(260,929)**	(175,312)
Proceeds from maturities of municipal securities	**47,277**	43,639
Purchases of municipal securities	**(81,018)**	(201,110)
Loan modification	**-**	1,128
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	**13,917**	(173,692)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(20,331)**	10,345
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**46,346**	36,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 26,015**	$ 46,346

STATEMENTS OF CASH FLOWS – CONTINUED
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
RECONCILIATION OF OPERATING LOSS TO TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	**$ (2,045)**	$ (1,328)
Adjustments to reconcile operating loss to net cash from operating activities:		
Bond financing costs	**196**	272
Net amortization (accretion) of premium (discount) on bonds payable	**(232)**	879
Reclassification of investment income and expense to other activities	**3,056**	875
Changes in assets and liabilities:		
Accounts payable	**(93)**	103
Rebate due IRS	**(3)**	6
NET CASH FROM OPERATING ACTIVITIES	**$ 879**	$ 807

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENT OF APPROPRIATIONS
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016
(In Thousands)

Note: Only appropriations of specific amounts are included in this statement. A reconciliation to the operating expenses on the December 31, 2016 and 2015 statement of revenues and expenses follows:

	2015-2017 Appropriations	7-1-15 12-31-15 Expenditures	1-1-16 12-31-16 Expenditures	Unexpended Appropriations at 12-31-16
Salaries and wages	$ 579	$ 113	$ 228	$ 238
Operating expenses	226	22	45	159
Total administrative expenses	805	135	273	397
Total expenses	$ 805	$ 135	$ 273	$ 397

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.

	2016	**2015**
Total appropriation expenditures for year ended December 31	**$ 273**	$ 263
GASB 68 Adjustment	**7**	(5)
Interest expense	**18,546**	15,912
State Revolving Fund administrative fees	**5,690**	4,314
Rebate due to IRS	**3**	7
Administrative and operating expenses paid out of general operating funds	**-**	122
Bond issue costs	**196**	272
Paying agent fees	**2**	2
Total operating expenses	**$ 24,717**	$ 20,887

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. 61, *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. Reporting units are further defined 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. 61, 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.

Basis of Accounting and Measurement Focus

The PFA 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. 62, the PFA follows all applicable GASB Pronouncements as well as following accounting principles generally accepted in the United States of America.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS’ fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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 net position. 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, certificates of deposit, investment contracts, agency notes and commercial paper.

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, 2016 and 2015.

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.

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, 2016 and 2015 and are not accrued.

Restricted Net Position

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

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. Rebate is calculated biannually and the liability is accordingly adjusted.

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):

	Bank Balance 2016	Bank Balance 2015
Cash and cash equivalents	$ 26,015	$ 46,346

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 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, commercial paper, guaranteed investment contracts, agency notes and certificates of deposit. There is no limit on the amount the PFA may invest in any one issuer.

Investment Valuation

The PFA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The PFA does not have any investments that are measured using Level 3 inputs.

The following tables summarize investment by investment type and input level (amounts are in thousands):

		Fair Value Measurements Using		
Investments	12/31/2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt Securities				
US Treasury notes	$ 99,855	$ 99,855	$ -	$ -
Federal agency notes	10,543	10,543	-	-
Commercial paper	1,195	-	1,195	-
Total debt securities	111,593	110,398	1,195	-
Total Investments at fair value	$ 111,593	$ 110,398	$ 1,195	$ -
Investments measured at contract value:				
Guaranteed Investment Contracts:				
MBIA	11,407			
Bank of ND	33,512			
Natixis Funding Corp.	27,794			
Total Guaranteed Investment Contracts	72,713			
Investments measured at cost:				
Certificate of deposit - Bank of ND	4,141			
Total investments	$ 188,447			

		Fair Value Measurements Using		
Investments	12/31/2015	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt Securities				
US Treasury notes	$ 47,706	$ 47,706	$ -	$ -
Certificates of deposit	19,993	-	19,993	-
Federal agency notes	21,862	21,862	-	-
Commercial paper	19,988	-	19,988	-
Total equity securities	109,549	69,568	39,981	-
Total Investments at fair value	$ 109,549	$ 69,568	$ 39,981	$ -
Investments measured at contract value:				
Guaranteed Investment Contracts:				
MBIA	11,127			
Bank of ND	37,877			
Natixis Funding Corp.	26,520			
Total Guaranteed Investment Contracts	75,524			
Investments measured at cost:				
Certificate of deposit - Bank of ND	27,553			
Total investments	$ 212,626			

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, 2016, 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	$ 99,855	$ 74,591	$ 25,264	$ -	$ -
Agency Notes	10,543	-	10,543	-	-
Commercial Paper	1,195	1,195	-	-	-
	$ 111,593	$ 75,786	$ 35,807	$ -	$ -
Investments not subject to categorization:					
Guaranteed Investment Contracts:					
MBIA	11,407				
Natixis Funding Corp.	27,794				
Bank of ND	33,512				
Total Guaranteed Investment Contracts	72,713				
Certificates of deposit - Bank of ND	4,141				
Total investments	$ 188,447				

As of December 31, 2015, 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	$ 47,706	$ 32,811	$ 14,895	$ -	$ -
Certificates of Deposit	19,993	19,993	-	-	-
Agency Notes	21,862	21,862	-	-	-
Commercial Paper	19,988	19,988	-	-	-
	$ 109,549	$ 94,654	$ 14,895	$ -	$ -
Investments not subject to categorization:					
Guaranteed Investment Contracts:					
MBIA	11,127				
Natixis Funding Corp.	26,520				
Bank of ND	37,877				
Total Guaranteed Investment Contracts	75,524				
Certificates of deposit - Bank of ND	27,553				
Total investments	$ 212,626				

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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.

As of December 31, 2016, the following table summarizes investment by investment type and credit rating (amounts are in thousands):

		Credit Rating*		
Investment Type	Total Fair Value	AAA	AA	A
Agency Notes	$ 10,543	$ -	$ 5,827	$ 4,716
Commercial Paper	1,195	-	-	1,195
		$ -	$ 5,827	$ 5,911
US Government	99,855			
Total Debt Securities	$111,593			

As of December 31, 2015, the following table summarizes investment by investment type and credit rating (amounts are in thousands):

		Credit Rating*		
Investment Type	Total Fair Value	AAA	AA	A
Certificates of Deposit	$ 19,993	$ -	$ -	$ 19,993
Agency Notes	21,862	-	-	21,862
Commercial Paper	19,988	-	-	19,988
		$ -	$ -	$ 61,843
US Government	47,706			
Total Debt Securities	$109,549			

* Ratings are determined by a nationally recognized statistical rating organization.

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 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. The PFA had municipal securities in oil impacted regions of North Dakota, which experienced declines in economic conditions during 2015 and into 2016 due to sustained periods of low oil prices, of approximately $277,915 outstanding as of December 31, 2016. At this time, there are too many unknown factors to give an estimate of the financial impact, if any; the economic conditions in the oil impacted regions could have on the PFA. No future 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:

	2016	2015
Capital Financing Program	**$ 167,144**	$ 175,672
State Revolving Fund Program	**542,784**	503,892
	709,928	679,564
Less current portion	**29,564**	26,631
	$ 680,364	$ 652,933

NOTE 4 - BONDS PAYABLE

Changes in Bonds Payable

Activity for long-term liabilities for the year ended December 31, 2016 was as follows:

	Balance 2015	Additions	Reductions	Net Accretion of Premiums and Discounts	Balance 2016	Amounts Due Within One Year
LONG-TERM LIABILITIES						
Bonds payable	**$479,595**	**$16,405**	**$46,925**	**$1,237**	**$450,312**	**$23,905**

Activity for long-term liabilities for the year ended December 31, 2015 was as follows:

	Balance 2014	Additions	Reductions	Net Accretion of Premiums and Discounts	Balance 2015	Amounts Due Within One Year
LONG-TERM LIABILITIES						
Bonds payable	$296,936	$185,040	$20,885	$18,504	$479,595	$23,230

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
2017	$ 23,905	$ 19,021	$ 42,926
2018	22,555	18,099	40,654
2019	23,090	17,138	40,228
2020	21,295	16,137	37,432
2021	22,155	15,209	37,364
2022-2026	108,285	60,687	168,972
2027-2031	114,390	34,609	148,999
2032-2036	62,220	11,117	73,337
2037-2041	9,720	3,281	13,001
2042-2045	8,230	849	9,079
Premiums	34,467	(34,467)	-
	$ 450,312	$ 161,680	$ 611,992

The following summarizes the PFA's bonds outstanding at December 31, 2016 and December 31, 2015:

Description and Due Date	**Interest Rate**	**Original Value**	**2016**	2015
Series 1996-SRF				
Serial Bonds 10/1/97-10/1/17 (net of premium)	5.10-6.00	$ 29,845	**$ 101**	$ 202
Series 1998-CFP				
Serial Bonds 6/1/99-6/1/23	4.20-5.25	9,695	**125**	165
Series 1998-SRF				
Serial Bonds 10/1/99-10/1/19 (net of premium)	4.00-5.50	35,965	**5,234**	5,337
Series 1999-CFP				
Serial Bonds 6/1/00-6/1/23	4.80-8.25	4,530	**130**	145
Series 2004-CFP				
Serial Bonds 6/1/05-6/1/24	2.00 - 4.90	880	**150**	165
Series 2005-SRF				
Serial Bonds 10/1/06-10/1/23 (net of premium)	3.00 - 5.00	36,210	**1,133**	1,258
Series 2006-CFP				
Serial Bonds 6/1/07-6/1/31	4.25 - 5.00	1,385	**180**	330
Series 2006-IDBP				
Serial Bonds 6/1/07-6/1/31	4.00 - 5.00	1,360	**1,000**	1,045

Description and Due Date	Interest Rate	Original Value	2016	2015
Series 2008-SRF				
Serial Bonds 10/1/09-10/1/28 (net of premium)	3.25 - 5.50	46,100	**5,595**	31,606
Series 2008-IDBP				
Serial Bonds 6/1/09-6/1/33	6.60 - 6.75	2,000	**1,660**	1,710
Series 2009-CFP				
Serial Bonds 6/1/10-6/1/34	2.00 - 4.88	2,125	**1,640**	1,720
Series 2009-IDBP				
Serial Bonds 6/1/10-6/1/34	3.00 - 6.00	1,500	**1,240**	1,285
Series 2011-CFP				
Serial Bonds 6/1/12-6/1/41	2.00 - 5.50	3,730	**3,070**	3,210
Serial Bonds 6/1/14-6/1/17	2.00*	9,142	**-**	2,000
Series 2011-SRF				
Serial Bonds 10/1/12-10/1/31 (net of premium)	3.00 - 5.00	101,210	**89,728**	95,291
Series 2012-SRF				
Serial Bonds 10/1/12-10/1/25 (net of premium)	0.24 - 5.00	37,605	**28,206**	33,016
Series 2012-CFP				
Serial Bonds 6/1/13-6/1/41	2.00 - 3.75	9,635	**8,330**	8,670
Series 2013-CFP				
Serial Bonds 6/1/14-6/1/33	3.00 - 4.00	51,375	**45,940**	47,820
Series 2014-CFP				
Serial Bonds 6/1/15-6/1/34	2.00 - 5.00	41,840	**38,590**	40,230
Series 2015-CFP				
Serial Bonds 6/1/15-6/1/45	2.00 - 5.00	65,845	**64,215**	65,810
Series 2015-SRF				
Serial Bonds 10/1/16-10/1/35 (net of premium)	3.00 - 5.00	119,195	**133,900**	138,580
Series 2016-SRF				
Serial Bonds 10/1/19-10/1/28 (net of premium)	4.00 - 5.00	16,405	**20,145**	-
			$ 450,312	**$ 479,595**

*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, 2016 is presented.

The PFA issued $16,405 of revenue bonds (Series 2016A SRF Bonds) with an average interest rate of 4.51 percent on August 11, 2016. 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, 2016 $21,695 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 $1,622. 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 12 years by $9,270 and resulted in an economic gain of $4,107.

NOTE 5 - LOAN MODIFICATION

Commercial or financial information of a contracting party provided to the PFA as part of any qualified small issue bonds or municipal industrial revenue bonds purchased or issued by the PFA, whether obtained directly or indirectly, are confidential records under Section 6-09.4-27 of North Dakota Century Code.

Municipal securities, and their corresponding interest, are fully or partially charged down when there is potential for a recognized loss. In 2013, the PFA reported a loss on loan modification of $2,242. In 2015, the PFA foreclosed and sold the property associated with this municipal security. A gain of $1,128 is reported and offsets the loss from 2013.

NOTE 6 - PENSION PLAN

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member'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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the Employer reported a liability of $159 and $122, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Employer's proportion was 0.016349 percent, which was a decrease of 0.00154 from its proportion measured as of June 30, 2015.

For the years ended December 31, 2016 and 2015, the Employer recognized pension expense of $19 and $12, respectively.

At December 31, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$2	$1
Changes of assumptions	15	8
Net difference between projected and actual earnings on pension plan investments	22	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1	10
Employer contributions subsequent to the measurement date	10	-
Total	$50	$19

At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$3	$0
Changes of assumptions	-	11
Net difference between projected and actual earnings on pension plan investments	14	16
Changes in proportion and differences between employer contributions and proportionate share of contributions	1	1
Employer contributions subsequent to the measurement date	10	-
Total	$28	$28

$10 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$4
2018	4
2019	8
2020	5
2021	1
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$226	$159	$103

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

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:

	2016	2015
Municipal securities purchased	**$ 81,006**	$ 134,883
EPA grant funds received	**14,961**	15,365

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, is as follows:

	2016	2015
1996A SRF bonds	**$ 1**	$ 6
1998A SRF bonds	**12**	12
Rebate due to IRS	**13**	18
Current rebate due to IRS	**1**	6
Long-term rebate due to IRS	**$ 12**	$ 12

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 1996, 1998, 2005, 2008, 2011, 2012, 2015 and 2016 State Revolving Fund Bonds.

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

	2016	2015
Bank of North Dakota		
Cash and cash equivalents - restricted	**$ 6,387**	$ 46,346
Interest receivable	**2**	3
Certificates of deposit recorded as investments (no current portion)	**4,141**	27,553
Municipal securities	**235**	380
Bank investment contract (1)	**33,512**	37,877
Bond Payable (2)	**-**	2,000
Expenses		
Registrar, paying agent and trustee fees	**113**	108
Treasury fees	**5**	3
Letter of credit fees	**-**	413
Office of the Attorney General		
Legal fees	**16**	39
Information Technology Department		
Telecommunications and data	**4**	4

(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. (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 $101,279 and $182,301 as of December 31, 2016 and 2015, 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, 2016, $27,534 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 $2,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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.

Required Supplementary Information

North Dakota Public Finance Authority

(In Thousands)

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2016	2015	2014
1. Employer's proportion of the net pension liability (asset)	0.016349%	0.017889%	0.017653%
2. Employer's proportionate share of the net pension liability (asset)	$159	$122	$112
3. Employer's covered-employee payroll	$165	$159	$149
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.36%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of July 1 of the years presented.

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2016	2015	2014
Statutorily required contribution	$12	$12	$19
Contributions in relation to the statutorily required contribution	($12)	($12)	($10)
Contribution deficiency (excess)	$0	$0	($8)
Agency's covered-employee payroll	$165	$159	$153
Contributions as a percentage of covered-employee payroll	7.27%	7.60%	6.80%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of July 1 of the years presented.

Notes to Required Supplementary Information
For the Year Ended December 31, 2016

Changes of assumptions

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

Supplementary Information

North Dakota Public Finance Authority

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2016
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
ASSETS				
CURRENT ASSETS				
Restricted				
Restricted cash and cash equivalents	$ 9,709	$ 15,788	$ 518	$ 26,015
Interest receivable	2,997	1,807	590	5,394
Investments	57,480	31,540	664	89,684
Municipal securities	11,933	11,646	5,985	29,564
Total restricted current assets	82,119	60,781	7,757	150,657
Total current assets	82,119	60,781	7,757	150,657
NONCURRENT ASSETS - RESTRICTED				
Investments	46,850	51,011	902	98,763
Municipal securities	336,204	183,001	161,159	680,364
Total restricted noncurrent assets	383,054	234,012	162,061	779,127
Total assets	$ 465,173	$ 294,793	$ 169,818	$ 929,784
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on bond refunding	$ 2,221	$ 2,980	$ -	$ 5,201
Derived from pension	-	-	50	50
Total deferred outflows of resources	$ 2,221	$ 2,980	$ 50	$ 5,251
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 6	$ 3	$ 19	$ 28
Rebate due to IRS	1	-	-	1
Bonds payable	10,862	6,898	6,145	23,905
Interest payable	1,936	1,039	601	3,576
Total current liabilities	12,805	7,940	6,765	27,510
NONCURRENT LIABILITIES				
Rebate due to IRS	-	12	-	12
Bonds payable	174,183	92,099	160,125	426,407
Net pension liability	-	-	159	159
Total noncurrent liabilities	174,183	92,111	160,284	426,578
Total liabilities	$ 186,988	$ 100,051	$ 167,049	$ 454,088
DEFERRED INFLOWS OF RESOURCES				`
Derived from pension	$ -	$ -	$ 19	$ 19
Total deferred inflows of resources	$ -	$ -	$ 19	$ 19
NET POSITION				
Unrestricted	$ -	$ -	$ 2,109	$ 2,109
Restricted for debt service	75,905	64,404	691	141,000
Restricted for loan purposes	204,501	133,318	-	337,819
Total net position	$ 280,406	$ 197,722	$ 2,800	$ 480,928

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2015
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
ASSETS				
CURRENT ASSETS				
Restricted				
Restricted cash and cash equivalents	$ 27,864	$ 17,903	$ 579	$ 46,346
Interest receivable	2,649	1,739	608	4,996
Investments	84,084	36,894	1,229	122,207
Municipal securities	10,199	10,447	5,985	26,631
Total restricted current assets	124,796	66,983	8,401	200,180
Total current assets	124,796	66,983	8,401	200,180
NONCURRENT ASSETS - RESTRICTED				
Investments	32,370	58,049	-	90,419
Municipal securities	310,691	172,555	169,659	652,905
Total restricted noncurrent assets	343,061	230,604	169,659	743,324
Total assets	$ 467,857	$ 297,587	$ 178,060	$ 943,504
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on bond refunding	$ 2,448	$ 1,748	$ -	$ 4,196
Derived from pension	-	-	28	28
Total deferred outflows of resoures	$ 2,448	$ 1,748	$ 28	$ 4,224
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 16	$ 12	$ 111	$ 139
Rebate due to IRS	6	-	-	6
Bonds payable	10,560	6,635	6,035	23,230
Interest payable	2,027	1,192	618	3,837
Total current liabilities	12,609	7,839	6,764	27,212
NONCURRENT LIABILITIES				
Rebate due to IRS	-	12	-	12
Bonds payable	186,643	101,453	168,269	456,365
Net pension liability	-	-	122	122
Total noncurrent liabilities	186,643	101,465	168,391	456,499
Total liabilities	$ 199,252	$ 109,304	$ 175,155	$ 483,711
DEFERRED INFLOWS OF RESOURCES				`
Derived from pension	$ -	$ -	$ 28	$ 28
Total deferred inflows of resources	$ -	$ -	$ 28	$ 28
NET POSITION				
Unrestricted	$ -	$ -	$ 2,103	$ 2,103
Restricted for debt service	82,269	69,517	802	152,588
Restricted for loan purposes	188,784	120,514	-	309,298
Total net position	$ 271,053	$ 190,031	$ 2,905	$ 463,989

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2016
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING REVENUES				
Investment income	$ 7,388	$ 4,510	$ 7,160	$ 19,058
Grant and set-asides	-	879	-	879
Administrative fees and other	1,603	916	216	2,735
	8,991	6,305	7,376	22,672
OPERATING EXPENSES				
Interest expense	7,098	4,160	7,288	18,546
State Revolving Fund loan forgiveness	197	3,152	-	3,349
State Revolving Fund administration	699	1,401	-	2,100
State Revolving Fund set-asides	-	241	-	241
Rebate (Benefit) due to IRS	3	-	-	3
Salaries and benefits	-	-	234	234
Bond issue costs	28	168	-	196
Operating	-	-	46	46
Paying agent fees	-	-	2	2
	8,025	9,122	7,570	24,717
OPERATING GAIN (LOSS)	966	(2,817)	(194)	(2,045)
NONOPERATING REVENUE				
Grant and set-asides	6,525	7,640	-	14,165
Investment income	1,862	2,868	89	4,819
	8,387	10,508	89	18,984
CHANGE IN NET POSITION	9,353	7,691	(105)	16,939
TOTAL NET POSITION, BEGINNING OF YEAR,	271,053	190,031	2,905	463,989
TOTAL NET POSITION, END OF YEAR	$ 280,406	$ 197,722	$ 2,800	$ 480,928

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING REVENUES				
Investment income	$ 6,158	$ 4,412	$ 5,762	$ 16,332
Grant and set-asides	-	831	-	831
Administrative fees and other	1,197	876	323	2,396
	7,355	6,119	6,085	19,559
OPERATING EXPENSES				
Interest expense	5,543	4,418	5,951	15,912
State Revolving Fund loan forgiveness	507	1,673	-	2,180
State Revolving Fund administration	661	1,256	-	1,917
State Revolving Fund set-asides	-	217	-	217
Rebate (Benefit) due to IRS	(1)	8	-	7
Salaries and benefits	-	-	217	217
Bond Issue Costs	251	21	-	272
Operating	-	-	163	163
Paying agent fees	-	-	2	2
	6,961	7,593	6,333	20,887
OPERATING GAIN (LOSS)	394	(1,474)	(248)	(1,328)
NONOPERATING REVENUE				
Grant and set-asides	6,821	7,771	-	14,592
Investment income	2,081	2,933	155	5,169
	8,902	10,704	155	19,761
EXTRAORDINARY ITEM				
Loan modification	-	-	1,128	1,128
INCOME BEFORE TRANSFERS	9,296	9,230	1,035	19,561
TRANSFERS	19,061	(19,061)	-	-
CHANGE IN NET POSITION	28,357	(9,831)	1,035	19,561
TOTAL NET POSITION, BEGINNING OF YEAR	242,696	199,862	1,870	444,428
TOTAL NET POSITION, END OF YEAR	$ 271,053	$ 190,031	$ 2,905	$ 463,989

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING ACTIVITIES				
Receipts of administrative fees from customers	$ 1,603	$ 916	$ 216	$ 2,735
Grant and set-asides	-	879	-	879
Payments to service providers	(709)	(1,651)	(133)	(2,493)
Payments to employees	-	-	(234)	(234)
Payment of rebate to IRS	(8)	-	-	(8)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	886	144	(151)	879
NONCAPITAL FINANCING ACTIVITIES				
Grant and set-asides	6,525	7,640	-	14,165
Interest paid on bonds payable	(8,412)	(6,598)	(7,305)	(22,315)
Bond financing costs	(28)	(168)	-	(196)
Proceeds from bond premiums	547	3,193	-	3,740
Proceeds from issuance of bonds payable	2,395	14,010	-	16,405
Principal payments on bonds payable	(13,650)	(25,241)	(8,035)	(46,926)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(12,623)	(7,164)	(15,340)	(35,127)
INVESTING ACTIVITIES				
Interest received on investments and municipal securities	8,902	7,310	7,267	23,479
Proceeds from maturities and sales of investments	162,524	122,421	163	285,108
Purchases of investments	(150,400)	(110,029)	(500)	(260,929)
Proceeds from maturities of municipal securities	23,309	15,456	8,512	47,277
Purchases of municipal securities	(50,753)	(30,253)	(12)	(81,018)
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	(6,418)	4,905	15,430	13,917
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,155)	(2,115)	(61)	(20,331)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,864	17,903	579	46,346
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,709	$ 15,788	$ 518	$ 26,015

COMBINING STATEMENT OF CASH FLOWS – CONTINUED
YEAR ENDED DECEMBER 31, 2016
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating gain (loss)	$ 966	$ (2,817)	$ (194)	$ (2,045)
Adjustments to reconcile operating loss to net cash from operating activities				
Bond issue costs	28	168	-	$ 196
Net amortization (accretion) of premium (discount) on bonds payable	676	(908)	-	(232)
Reclassification of investment income and expense to other activities	(771)	3,692	135	3,056
Changes in assets and liabilities				
Accounts payable	(10)	9	(92)	(93)
Rebate due IRS	(3)	-	-	(3)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	$ 886	$ 144	$ (151)	$ 879

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING ACTIVITIES				
Receipts of administrative fees from customers	$ 1,197	$ 876	$ 323	$ 2,396
Grant and set-asides	-	831	-	831
Payments to service providers	(654)	(1,467)	(69)	(2,190)
Payments to employees	-	-	(230)	(230)
NET CASH FROM OPERATING ACTIVITIES	543	240	24	807
NONCAPITAL FINANCING ACTIVITIES				
Grant and set-asides	6,821	7,771	-	14,592
Transfers	19,061	(19,061)	-	-
Interest paid on bonds payable	(4,221)	(4,700)	(5,708)	(14,629)
Bond financing costs	(251)	(21)	-	(272)
Proceeds from bond premiums	17,909	1,475	-	19,384
Proceeds from issuance of bonds payable	110,125	9,070	65,845	185,040
Principal payments on bonds payable	(7,438)	(6,087)	(7,360)	(20,885)
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	142,006	(11,553)	52,777	183,230
INVESTING ACTIVITIES				
Interest received on investments and municipal securities	7,872	7,298	5,677	20,847
Decrease in other assets	-	-	150	150
Proceeds from maturities and sales of investments	91,976	44,933	57	136,966
Purchases of investments	(129,263)	(44,763)	(1,286)	(175,312)
Proceeds from maturities of municipal securities	22,581	13,181	7,877	43,639
Purchases of municipal securities	(112,530)	(22,354)	(66,226)	(201,110)
Loan Modification	-	-	1,128	1,128
NET CASH (USED FOR) INVESTING ACTIVITIES	(119,364)	(1,705)	(52,623)	(173,692)
NET CHANGE IN CASH AND CASH EQUIVALENTS	23,185	(13,018)	178	10,345
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,679	30,921	401	36,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 27,864	$ 17,903	$ 579	$ 46,346

COMBINING STATEMENT OF CASH FLOWS – CONTINUED
YEAR ENDED DECEMBER 31, 2015
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating gain (loss)	$ 394	$ (1,474)	$ (249)	$ (1,329)
Adjustments to reconcile operating loss to net cash used for operating activities				
Bond financing costs	251	21	-	272
Net amortization (accretion) of premium (discount) on bonds payable	357	522	-	879
Reclassification of investment income and expense to other activities	(465)	1,157	184	876
Changes in assets and liabilities				
Accounts payable	8	6	89	103
Rebate due IRS	(2)	8	-	6
NET CASH FROM OPERATING ACTIVITIES	$ 543	$ 240	$ 24	$ 807

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS — EXHIBIT A-1
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures (In Thousands)	Amounts Passed Through to Subrecipients (In Thousands)
ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the North Dakota Department of Health			
Capitalization Grants for Clean Water State Revolving Funds	66.458	$ 6,525	$ 6,525
Capitalization Grants for Drinking Water State Revolving Funds	66.468	8,436	7,640
Total Environmental Protection Agency		$ 14,961	$ 14,165

The agency has not elected to use the 10% de minimis cost rate.

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

The amounts passed through to sub- recipients 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.

A. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None.

EideBailly
CPAs & BUSINESS ADVISORS

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*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of North Dakota Public Finance Authority, an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the North Dakota Public Finance Authority's basic financial statements, and have issued our report thereon dated March 2, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, 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 North Dakota Public Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
March 2, 2017

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on Compliance for the Major Federal Program
We have audited North Dakota Public Finance Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the North Dakota Public Finance Authority's major federal program for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for the North Dakota Public Finance Authority's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the major federal program. However, our audit does not provide a legal determination of North Dakota Public Finance Authority's compliance.

Opinion on the Major Federal Program
In our opinion, North Dakota Public Finance Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major Federal program for the year ended December 31, 2016.

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 compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Dakota Public Finance Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 North Dakota Public Finance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Eide Bailly LLP

Bismarck, North Dakota
March 2, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	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 the Uniform Guidance	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Capitalization Grants for Clean Water State Revolving Funds	66.458

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as a low-risk auditee	Yes

Section II – Financial Statement Findings

No financial statement findings reported in the current year.

Section III – Federal Award Findings and Questioned Costs

No federal award findings reported in the current year.

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Independent Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
Year Ended December 31, 2016

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the December 31, 2016 audit of the North Dakota Public Finance Authority are as follows:

Audit Report Communications

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

   Unmodified

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

   Yes

3. Was internal control adequate and functioning effectively?

   Yes

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

   No

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

   There were no findings from the prior year

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

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Audit Committee Communications

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

   None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these estimates.

   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.

   The North Dakota Public Finance Authority has one critical information technology system. There were no exceptions identified that were 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, and management, and is not intended to be and should not be used by anyone other than these specified parties

Eide Bailly LLP

Bismarck, North Dakota
March 2, 2017

CPAs & BUSINESS ADVISORS

Independent Auditor's Communication
to the Industrial Commission of North Dakota

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the North Dakota Public Finance Authority as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 2, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 21, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the North Dakota Public Finance Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the North Dakota Public Finance Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. There were no significant estimates.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the North Dakota Public Finance Authority's financial statements relate to: Net Pension Liability.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no corrected or uncorrected misstatements identified furing the course of the audit.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated March 2, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the North Dakota Public Finance Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the North Dakota Public Finance Authority's auditors.

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Employer's Share of Net Pension Liability, and Schedule of Employer Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Statements of Net Position, Combining Statements of Revenues, Expenses, and Changes in Net Position, Combining Statements of Cash Flows, and Schedule of Expenditures of Federal Awards (supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review, and management of the North Dakota Public Finance Authority and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
March 2, 2017