REBUILDERS LOAN PROGRAM

FINANCIAL STATEMENTS

JUNE 30, 2012

REBUILDERS LOAN PROGRAM

Table of Contents

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the Rebuilders Loan Program as of June 30, 2012, and for the period from inception (November 21, 2011) to June 30, 2012, which comprises the Rebuilders Loan Program's basic financial statements as listed in the table of contents. This financial statement is the responsibility of the Rebuilders Loan Program's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Rebuilders Loan Program and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Rebulders Loan Program as of June 30, 2012, and for the period from inception (November 21, 2011) to June 30, 2012, in conformity with accounting principles generally accepted in the United States of America .

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of the Rebuilders Loan Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

September 26, 2012

The management discussion and analysis of the Rebuilders Loan Program's (Fund) financial performance provides an overview of the Fund's financial activities for the period from inception (November 21, 2011) to June 30, 2012. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The North Dakota Legislature appropriated $50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The Industrial Commission approved the Rebuilders Loan Guidelines on 11/21/2011. The first $30,000,000 for this program will be transferred from Bank of North Dakota's undivided profits. If this amount is fully obligated, the remaining $20,000,000 will come from the General Fund.

The purpose of this Fund is to help owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward counties. Residents with flood-damaged homes that have been granted a tax assessment reduction in 2011 are eligible to apply for a loan of up to $30,000 at a 1% interest rate for 20 years. Payments are not required for 24 months, however, interest accrues during this time. Applications may not be accepted after September 30, 2012.

Bank of North Dakota administers the loan fund.

The Bank may deduct a service fee for administering the fund for the Bank and originating financial institutions.

There were 970 new loans made by the Fund for the period from inception (November 21, 2011) to June 30, 2012. These loans totaled $28,104,280, of which $25,625,354 has been disbursed.

There are currently 970 loans outstanding. The gross amount of outstanding loans is $25,494,551 with an allowance for loan losses of $2,549,455 for net loans of $22,945,096.

There were 201 loans totaling $5,421,161 approved, but not yet funded, as of June 30, 2012.

An appropriation of $16,474,559 is available for loans at the end of fiscal year 2012.

REQUIRED FINANCIAL STATEMENTS:

The Fund is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the balance sheet, statement of revenues, expenses, and changes in fund net assets, and statement of cash flows. The balance sheet provides readers the assets and liabilities of the Fund, with the differences between the two reported as net assets. The statement of revenues, expenses, and changes in fund net assets identifies the operating performance of the Fund for the calendar year. The statement of cash flows identifies cash flows from operating activities and investing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED BALANCE SHEETS
JUNE 30, 2012

	(In Thousands) 2012
ASSETS	
CURRENT ASSETS	
Cash deposits	**$ 132**
Origination fee, current	**12**
Total current assets	**144**
NON CURRENT LOANS, NET	
Interest receivable	**40**
Loans, noncurrent portion	**22,945**
Origination fee, noncurrent	**218**
Total noncurrent assets	**23,203**
Total assets	**$ 23,347**
CURRENT LIABILITIES	**$ 20**
NET ASSETS - UNRESTRICTED	**23,327**
Total liabilities and net assets	**$ 23,347**

Loans

970 loans were made during the fiscal year 2012. There were no delinquent or nonaccrual loans as of June 30, 2012. There were no loan charge-offs during 2012.

Net Assets

At June 30, 2012, net assets were $23.3 million. Loans are funded from Bank of North Dakota's Undivided Profits. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS FOR THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

	(In Thousands) 2012
OPERATING REVENUES	$ 41
OPERATING EXPENSES	2,582
OPERATING LOSS	(2,541)
TRANSFER IN	25,868
CHANGE IN NET ASSETS	23,327
TOTAL NET ASSETS, BEGINNING OF YEAR	-
TOTAL NET ASSETS, END OF YEAR	$ 23,327

Revenue

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans is 1%.

Expenses

A Provision for Credit Loss of $2,549,455 has been set up for the Fund.

Loan fees of $243,000 have been paid from the period from inception (November 21, 2011) to June 30, 2012.

Other expenses are for the independent audit of the financial records and reimbursement to Bank of ND for salary/benefit expenses and for advertising expenses for the Fund.

Operating Transfers In/Out

For the period from inception (November 21, 2011) to June 30, 2012, the Bank of North Dakota transferred $25,868,354 to the Fund.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

REBUILDERS LOAN PROGRAM
BALANCE SHEET
JUNE 30, 2012

	2012
ASSETS	
CURRENT ASSETS	
Cash deposits at the Bank of North Dakota	**$ 131,672**
Origination fee, current	**12,150**
Total current assets	**143,822**
NONCURRENT ASSETS	
Interest receivable	**39,805**
Loans, net of allowance for credit losses of $2,549,455	**22,945,096**
Origination fee, noncurrent	**218,700**
Total noncurrent assets	**23,203,601**
Total assets	**$ 23,347,423**
LIABILITIES	
CURRENT LIABILITIES	
Due to the Bank of North Dakota	**$ 20,537**
NET ASSETS	
UNRESTRICTED	**23,326,886**
Total liabilities and net assets	**$ 23,347,423**

REBUILDERS LOAN PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

	2012
OPERATING REVENUES	
Interest on loans	$ 40,674
OPERATING EXPENSES	
Loan fees	12,150
Other expenses	20,537
Provision for credit loss	2,549,455
	2,582,142
OPERATING LOSS	(2,541,468)
TRANSFER IN	25,868,354
CHANGE IN NET ASSETS	23,326,886
TOTAL NET ASSETS, BEGINNING OF YEAR	-
TOTAL NET ASSETS, END OF YEAR	$ 23,326,886

REBUILDERS LOAN PROGRAM
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

	2012
OPERATING ACTIVITIES	
Payment of other expenses	$ (243,000)
NET CASH USED FOR OPERATING ACTIVITIES	(243,000)
INVESTING ACTIVITIES	
Transfer from Bank of ND	25,868,354
Loan interest received	869
Loans advanced	(25,625,354)
Proceeds from principal collections on loans	130,803
NET CASH PROVIDED BY INVESTING ACTIVITIES	374,672
NET CHANGE IN CASH	131,672
CASH, INCEPTION	-
CASH, END OF YEAR	$ 131,672

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	$ (2,541,468)
Adjustments to reconcile operating loss to net cash used for operating activities	
Adjustment for provision for credit loss	2,549,455
Increase in due to the Bank of North Dakota	20,537
Increase in origination fees	(230,850)
Reclassification of loan interest income to other activities	(40,674)
NET CASH USED FOR OPERATING ACTIVITIES	$ (243,000)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09-46 of the North Dakota Century Code (NDCC) established the Rebuilders Loan Program (Fund). The purpose of this Fund is to help owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward counties. Residents with flood-damaged homes that have been granted a tax assessment reduction in 2011 are eligible to apply for a loan of up to $30,000 at a 1% interest rate for 20 years. Payments are not required for 24 months, however, interest accrues during this time. Applications may not be accepted after September 30, 2012.

Bank of North Dakota (Bank) administers the loan fund. The Bank transfers the money appropriated for this fund from its undivided profits.

The Bank may deduct a service fee for administering the fund for the Bank and originating financial institutions.

Reporting Entity

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

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

Accounting Standards and Adoptions of Accounting Policies

The Fund follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities. In accordance with GASB Statement No. 20, the Fund follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with the GASB pronouncements.

Fund Accounting

The Fund is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested or capital assets, net of related debt, and unrestricted components. The statement of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows present the cash flows for operating activities, non-capital financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk

All of the Fund's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the Rebuilder Loan Program.

Cash and Cash Equivalents

The Fund considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for the purpose of reporting cash flows.

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate of 1% on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Credit Losses

The Fund uses the allowance method in providing for credit losses. Accordingly, the allowance is increased or reduced by the current year's provision for credit losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for credit losses and the provisions for credit losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

A loan is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenes consist of interest income on the Loans. This program does not have non-operating revenues.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Fund's cash deposits at June 30, 2012 was $131,672. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTE 3 - LOANS

A description of Fund loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans follows:

	2012
Loans, current portion	$ -
Loans, noncurrent portion	25,494,551
Total loans	25,494,551
Allowance for credit losses	2,549,455
Total loans, net	$ 22,945,096

Changes in the balances of loans follows:

Balance, November 21, 2011	$ -
Loan advances	25,625,354
Principal collections	(130,803)
Balance, June 30, 2012	$ 25,494,551

Changes in allowance for credit losses are as follows:

	2012
Balance, inception	$ -
Provision of credit losses	2,549,455
Balance, end of year	$ 2,549,455

There were no impaired loans as of June 30, 2012. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2012.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota.

The Fund owed the Bank $20,537 as of June 30, 2012.

Total transfers from Bank of North Dakota for the period ending June 30, 2012 were $25,868,354.

NOTE 5 - LOAN COMMITMENTS

The Fund 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 Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-balance-sheet instruments. There were 201 commitments to extend credit for $5,421,161 as of June 30, 2012.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

NOTE 6 - RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts and errors and omissions. The Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage during the current period and settled claims resulting from these risks have not exceeded insurance coverage.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Exhibit A-1

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 the financial statements of the business-type activities of the Rebuilders Loan Program, as of and for the period from inception (November 21, 2011) to June 30, 2012, which collectively comprise Rebuilders Loan Program's basic financial statements and have issued our report thereon dated September 26, 2012.We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rebuilder Loan Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rebuilder's Loan Program internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rebuilder's Loan Program's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

BRADY, MARTZ & ASSOCIATES, P.C.
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Bismarck, ND 58502-1297 701.223.1717 Fax 701.222.0894
www.bradymartz.com

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

BRADY, MARTZ & ASSOCIATES, P.C.

September 26, 2012

REBUILDERS LOAN PROGRAM
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

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

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

   An unqualified opinion was issued on the 2012 financial statements.

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

   Yes - A review was made of Chapter 6-09.5 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

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

   Yes

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

   No

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

   N/A – First period of program.

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

   No

Audit Committee Communications:

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

   None

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

   None

3. **Identify any significant audit adjustments.**

   None

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

   None

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

   None

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

   None

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

   None

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

   Based on the audit procedures performed, the Program's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

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

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

September 26, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Exhibit B-1

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

September 26, 2012

To the Industrial Commission
State of North Dakota
Bismarck, ND

We have audited the financial statements of the Rebuilders Loan Program for the period from inception (November 21, 2011) to June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rebuilders Loan Fund are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the period for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Fund's financial statements was:

> Management's estimate of allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

This information is intended solely for the use of the North Dakota Industrial Commission and management of the Rebuilders Loan Program, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.