Financial Statements
June 30, 2013 and 2012

# Rebuilders Loan Program

**REBUILDERS LOAN PROGRAM**

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EideBailly
CPAs & BUSINESS ADVISORS

# Independent Auditor's Report

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

**Report on the Financial Statements**
We have audited the accompanying financial statements of the Rebuilders Loan Program (the Program), the an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program'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 Program'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 Program, as of June 30, 2013, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**
As discussed in Note 1, the financial statements of the Program are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2013 or 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**
The financial statements of the Program as of and for the year ended June 30, 2012, were audited by other auditors whose report dated September 26, 2012, expressed an unqualified opinion on those statements.

*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**
In accordance with *Government Auditing Standards,* we have also issued a report dated October 28, 2013 on our consideration of the Program'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 Program's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
October 28, 2013

# REBUILDERS LOAN PROGRAM
## MANAGEMENT DISCUSSION AND ANALYSIS
## JUNE 30, 2013 AND 2012

The management discussion and analysis of the Rebuilders Loan Program's (the Program) financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the financial statements of the Program.

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 was transferred from Bank of North Dakota's undivided profits. The remaining $20,000,000 was funded 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 were not accepted after September 30, 2012.

The North Dakota Legislature amended the Rebuilders Loan Program in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There is no deferral of principal and interest payments for a loan for nonowner-occupied property. Applications may not be accepted after September 30, 2013. A supplemental loan up to $20,000 may be made to a homeowner who has received an initial loan under certain conditions. Supplemental loan applications may not be accepted before October 1, 2013, nor after December 31, 2013.

The North Dakota Legislature also provided for an additional $5,000,000, or so much of the sum as may be necessary, from Bank of North Dakota's (Bank) undivided profits through June 30, 2015. After June 30, 2013, repayments to the Program shall be transferred to replenish $30,000,000 (and the additional $5,000,000, if necessary) of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the $35,000,000 used to replenish the Bank's undivided profits.

The Bank of North Dakota administers the loan fund.

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

There were 502 new loans totaling $13,906,289 made by the Program for the period from July 1, 2012 to June 30, 2013. There were 970 new loans totaling $28,104,280 made by the Program for the period from inception (November 21, 2011) to June 30, 2012.

There are currently 1,440 loans outstanding. As of June 30, 2013, the gross amount of outstanding loans was $38,743,359 with an allowance for credit losses of $3,874,200 for net loans of $34,869,159. As of June 30, 2012 there were 970 loans outstanding. The gross amount of outstanding loans was $25,494,551 with an allowance for credit losses of $2,549,455 for net loans of $22,945,096.

There were 54 loans totaling $870,565 approved, but not yet funded, as of June 30, 2013 and 201 loans totaling $5,421,161 approved, but not yet funded, as of June 30, 2012.

An appropriation of $12,287,268 is available for loans at the end of fiscal year 2013. There was $16,474,559 available for loans at the end of fiscal year 2012.

REQUIRED FINANCIAL STATEMENTS:

The Program is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows. The statement of net position provides readers the assets and liabilities of the Program, with the differences between the two reported as net position. The statement of revenues, expenses, and changes in fund net position identifies the operating performance of the Program 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 STATEMENTS OF NET POSITION**
**JUNE 30, 2013 AND 2012**

| | (In Thousands) 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash deposits | **$ 10,868** | $ 132 |
| Loans, current portion | **325** | 669 |
| Origination fee, current | **18** | 12 |
| Total current assets | **11,211** | 813 |
| NON CURRENT LOANS, NET | | |
| Interest receivable | **209** | 40 |
| Loans, noncurrent portion | **34,544** | 22,276 |
| Origination fee, noncurrent | **320** | 218 |
| Total noncurrent assets | **35,073** | 22,534 |
| Total assets | **$ 46,284** | $ 23,347 |
| **CURRENT LIABILITIES** | **$ 6** | $ 20 |
| **NON CURRENT LIABILITIES** | **46,278** | - |
| Total liabilities | **46,284** | 20 |
| **NET POSITION - UNRESTRICTED** | **-** | 23,327 |
| Total liabilities and net position | **$ 46,284** | $ 23,347 |

*Cash Deposits*

Cash deposits increased $10.7 million from June 30, 2012 to June 30, 2013 due to appropriations received from the State general fund in fiscal year 2013 that have not yet been disbursed for qualifying loans.

*Loans*

There were 502 loans were made during the fiscal year 2013 and 970 new loans were made during the fiscal year 2012. There were no delinquent or nonaccrual loans as of June 30, 2013 and 2012. There were no loan charge-offs during 2013 and 2012.

*Non Current Liabilities*

Non current liabilities increased $46.3 million from June 30, 2012 to June 30, 2013 due to the North Dakota Legislature 2013 action to first require loan repayments received by the Program to replenish the Bank's undivided profits which were used to initially fund the program and then require any other loan repayments received to be transferred to the State General Fund. (See Note 4)

*Net Position*

Net position decreased from $23.3 million as of June 30, 2012 to zero as of June 30, 2013 due to the North Dakota Legislature action in 2013 that first requires loan repayments received by the Program to replenish the Bank's undivided profits and then requires any all other loan repayments received to be transferred to the State General Fund. Loans are funded from the Bank's undivided profits and an appropriation from the General Fund. The Program is directed by the North Dakota Industrial Commission. The Bank supervises and administers the Program and the loans made by the Program.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED JUNE 30, 2013 & THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012**

(In Thousands)

| | **2013** | 2012 |
|---|---|---|
| OPERATING REVENUES | **$ 179** | $ 41 |
| OPERATING EXPENSES | **1,360** | 2,582 |
| OPERATING LOSS | **(1,181)** | (2,541) |
| TRANSFERS IN | **24,132** | 25,868 |
| TRANSFERS OUT | **(46,278)** | - |
| CHANGE IN NET POSITION | **(23,327)** | 23,327 |
| TOTAL NET POSITION, BEGINNING OF YEAR | **23,327** | - |
| TOTAL NET POSITION, END OF YEAR | **$ -** | $ 23,327 |

*Revenue*

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

*Expenses*

The provision for credit loss was $1,324,745 and $2,549,455 for the years ended June 30, 2013, and 2012, respectively.

Loan origination fees of $124,500 and $243,000 have been paid during the year ended June 30, 2013, and 2012, respectively.

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

*Operating Transfers In/Out*

During the year ended June 30, 2013, the Program received transfers from the State Treasurer for $20,000,000 and from the Bank in the amount of $4,131,646. Due to the North Dakota Legislature 2013 action to require repayment to the Bank and the State general fund, the Program recorded a transfer out to reflect a liability of $30,000,000 to the Bank and $16,278,244 to the State general fund.

During the period from inception (November 21, 2011) to June 30, 2012, the Bank transferred $25,868,354 to the Program.

ECONOMIC FACTORS AND FUTURE OUTLOOK

In 2013, the North Dakota Legislature provided for an additional $5,000,000, or so much of the sum as may be necessary, from Bank of North Dakota's undivided profits from June 30, 2013 through June 30, 2015, which will be repaid to the Bank from future loan repayments to the Program.

CONTACTING THE PROGRAMS'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Program's finances and to demonstrate the Program'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
## STATEMENTS OF NET POSITION
## JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash deposits at the Bank of North Dakota | **$ 10,867,779** | $ 131,672 |
| Loans, current | **325,297** | 669,481 |
| Loan origination fees, current | **17,768** | 12,150 |
| Total current assets | **11,210,844** | 813,303 |
| NONCURRENT ASSETS | | |
| Interest receivable | **209,431** | 39,805 |
| Loans, net of allowance for credit losses of $3,874,200 in 2013 and $2,549,455 in 2012 | **34,543,862** | 22,275,615 |
| Loan origination fees, noncurrent | **319,814** | 218,700 |
| Total noncurrent assets | **35,073,107** | 22,534,120 |
| Total assets | **$ 46,283,951** | $ 23,347,423 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Due to the Bank of North Dakota | **$ 5,707** | $ 20,537 |
| NON CURRENT LIABILITIES | | |
| Due to the Bank of North Dakota | **30,000,000** | - |
| Due to State of North Dakota General Fund | **16,278,244** | - |
| Total liabilities | **46,283,951** | 20,537 |
| **NET POSITION** | | |
| UNRESTRICTED | **-** | 23,326,886 |
| Total liabilities and net position | **$ 46,283,951** | $ 23,347,423 |

See Notes to Financial Statements

# REBUILDERS LOAN PROGRAM
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## FOR THE YEAR ENDED JUNE 30, 2013 AND THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

| | **2013** | 2012 |
|---|---|---|
| OPERATING REVENUES | | |
| Interest on loans | **$ 178,811** | $ 40,674 |
| OPERATING EXPENSES | | |
| Loan origination fee amortization | **17,768** | 12,150 |
| Other expenses | **16,586** | 20,537 |
| Provision for credit loss | **1,324,745** | 2,549,455 |
| | **1,359,099** | 2,582,142 |
| OPERATING LOSS | **(1,180,288)** | (2,541,468) |
| TRANSFERS IN | **24,131,646** | 25,868,354 |
| TRANSFERS OUT | **(46,278,244)** | - |
| CHANGE IN NET POSITION | **(23,326,886)** | 23,326,886 |
| TOTAL NET POSITION, BEGINNING OF YEAR | **23,326,886** | - |
| TOTAL NET POSITION, END OF YEAR | **$ -** | $ 23,326,886 |

# REBUILDERS LOAN PROGRAM
## STATEMENTS OF CASH FLOWS
## FOR THE YEAR ENDED JUNE 30, 2013 & THE PERIOD FROM INCEPTION (NOVEMBER 21, 2011) TO JUNE 30, 2012

| | 2013 | 2012 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Payment of other expenses | $ (31,415) | $ - |
| NET CASH USED FOR OPERATING ACTIVITIES | (31,415) | - |
| INVESTING ACTIVITIES | | |
| Transfer from Bank of North Dakota | 4,131,646 | 25,868,354 |
| Transfer from State of North Dakota General Fund | 20,000,000 | - |
| Loan interest received | 9,184 | 869 |
| Loans advanced | (13,917,239) | (25,625,354) |
| Proceeds from principal collections on loans | 668,431 | 130,803 |
| Origination fees paid | (124,500) | (243,000) |
| NET CASH FROM INVESTING ACTIVITIES | 10,767,522 | 131,672 |
| NET CHANGE IN CASH | 10,736,107 | 131,672 |
| CASH, BEGINNING OF YEAR | 131,672 | - |
| CASH, END OF YEAR | $ 10,867,779 | $ 131,672 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES | | |
| Operating loss | $ (1,180,288) | $ (2,541,468) |
| Adjustments to reconcile operating loss to net cash used for operating activities | | |
| Adjustment for provision for credit loss | 1,324,745 | 2,549,455 |
| Increase (decrease) in due to the Bank of North Dakota | (14,830) | 20,537 |
| Adjustment for origination fee amortization | 17,768 | 12,150 |
| Reclassification of loan interest income to other activities | (178,810) | (40,674) |
| NET CASH USED FOR OPERATING ACTIVITIES | $ (31,415) | $ - |

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations*

Section 6-09-46 of the North Dakota Century Code (NDCC) established the Rebuilders Loan Program (the Program). 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.

The North Dakota Legislature amended the Rebuilders Loan Program in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There is no deferral of principal and interest payments for a loan for nonowner-occupied property. A supplemental loan up to $20,000 may be made to a homeowner who has received an initial loan under certain conditions. Applications may not be accepted after September 30, 2013. Supplemental loan applications may not be accepted before October 1, 2013, nor after December 31, 2013.

The North Dakota Legislature appropriated $50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The first $30,000,000 for this program was transferred from Bank of North Dakota’s undivided profits. The remaining $20,000,000 was transferred by the State of North Dakota’s General Fund.

The North Dakota Legislature also provided for an additional $5,000,000, or so much of the sum as may be necessary, from Bank of North Dakota’s (Bank) undivided profits through June 30, 2015. After June 30, 2013, repayments to the Program shall be transferred to replenish $30,000,000 (and the additional $5,000,000, if necessary) of the Bank’s undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the $35,000,000 used to replenish the Bank’s undivided profits.

The Bank administers the loan fund and transfers the money appropriated for this Program from its undivided profits.

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

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the Program should include all component units over which the Program 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 Program.

Based on that, no organizations were determined to be part of the reporting entity. The Program 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 Program 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.

*Fund Accounting*

The Program 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 statement of net position. Net position is segregated into (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net postition. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital and related 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 statement of net position 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 credit losses.

*Significant Group Concentrations of Credit Risk*

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

*Cash and Cash Equivalents*

The Program 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 less an allowance for credit losses. 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 Program 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 Program 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.

*Loan Origination Fees*

The Program pays a loan origination $250 per loan. Loan origination fees are amortized over the estimated lives of the acquired loans.

*Credit Related Financial Instruments*

In the ordinary course of business, the Program 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.

*Reclassifications*

Certain items in the 2012 financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the 2012 change in net position.

**NOTE 2 - DEPOSITS**

The carrying value and bank balance of the Program's cash deposits at June 30, 2013 and 2012 was $10,867,779 and $131,672, respectively. 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 Program 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 Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program'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 Program loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans follows:

| | **2013** | 2012 |
|---|---|---|
| Loans, current portion | **$ 325,297** | $ 669,481 |
| Loans, noncurrent portion | **38,418,062** | 24,825,070 |
| Total loans | **38,743,359** | 25,494,551 |
| Allowance for credit losses | **3,874,200** | 2,549,455 |
| Total loans, net | **$ 34,869,159** | $ 22,945,096 |

Changes in the balances of loans follows:

| | |
|---|---|
| Balance, July 1, 2012 | **$ -** |
| Loan advances | **25,625,354** |
| Principal collections | **(130,803)** |
| Balance, June 30, 2012 | **25,494,551** |
| Loan advances | **13,918,289** |
| Principal collections | **(669,481)** |
| Balance, June 30, 2013 | **$ 38,743,359** |

Changes in allowance for credit losses are as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance, beginning of year | **$ 2,549,455** | $ - |
| Provision of credit losses | **1,324,745** | 2,549,455 |
| Balance, end of year | **$ 3,874,200** | $ 2,549,455 |

There were no impaired loans as of June 30, 2013 and 2012. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2013 and 2012.

## NOTE 4 - RELATED PARTY TRANSACTIONS

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

The North Dakota Legislature appropriated $50,000,000 for the Rebuilders Loan Program during its Special Session held in November 2011. The first $30,000,000 for this program was transferred from Bank of North Dakota's undivided profits, of which $4,131,646 and $25,868,354 was received during the years ended June 30, 2013 and 2012, respectively. The remaining $20,000,000 was transferred by the State of North Dakota's General Fund during the year ended June 30, 2013.

During 2013, the North Dakota Legislature revised the program to require that after June 30, 2013, loan repayments received by the Program shall be transferred back to the Bank to replenish $30,000,000 of the Bank's undivided profits. As such, the Program owed the Bank $30,000,000 as of June 30, 2013. In addition, the legislation required that after the Bank's undivided profits are replenished, any repayments received by the Program shall be transfered to the State Treasurer for deposit in the State General Fund. As such, the Program owed the General Fund $16,278,244 as of June 30, 2013.

The Bank charged the Program for operating expenses totaling $12,836 and $16,037 for the years ended June 30, 2013 and 2012, respectively, of which the Program owed the Bank $5,707 as of June 30, 2013 and $20,537 as of June 30, 2012.

## NOTE 5 - LOAN COMMITMENTS

The Program 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 statement of net position.

The Program's exposure to credit loss is represented by the contractual amount of these commitments. The Program follows the same credit policies in making commitments as it does for on-balance-sheet instruments. There were 54 commitments to extend credit for $870,565 as of June 30, 2013.

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 Program is exposed to various risks of loss related to torts and errors and omissions. The Program 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 Program 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 from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

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**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 Rebuilders Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated October 28, 2013.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of Audit Findings, Recommendations and Agency's Responses, item 2013-A, to be a material weakness.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program'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*.



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**Rebuilders Loan Program's Response to Findings**

The Program's response to the findings identified in our audit are described in the accompanying schedule of Audit Findings, Recommendations and Agency's Responses. The Program's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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

Aberdeen, South Dakota
October 28, 2013

**2013-A - Material Audit Adjustment**

**Material Weakness**

Condition: During the course of our engagement, we proposed a material audit adjustment to the Program's recorded account balances, which if not recorded, would have resulted in a material misstatement of the Program's financial statements.

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements.

Cause: During 2013, the North Dakota Legislature took action to require repayment to the State general fund all loan payments received after the Program repays the Bank of North Dakota. Due to the unique nature of the transaction, the internal accounting system for the Program did not reflect a liability for this obligation on their financial statements.

Effect: The adjustment reflected a transfer of all the Program's net position to a liability based on the Legislature's requirement to return remaining funds to the State's general fund after repayment of all other obligations.

Recommendation: We recommend a thorough review of the transactions and annual legislative actions take place prior to the beginning of the audit to ensure that generally accepted accounting principles have been followed, especially for transaction types infrequent in occurrence.

Management's Response: The Bank agrees that the adjustment is the proper accounting treatment for this transaction and has made the adjustment to the financial statements. In the future, Accounting Services will review new legislation more thoroughly to identify items that require more in-depth analysis of the proper accounting treatment.

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**Independent Auditor's Comments Requested By The**
**North Dakota Legislative Audit And Fiscal Review Committee**

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 regarding the June 30, 2013 audit of the Rebuilders Loan Program 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, except a material weakness was identified due to a material audit adjusting journal entry.

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

   No

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

   There were no prior year findings or recommendations.

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

   No



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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.

   Management's estimate of allowance for credit 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.

3. Identify any significant audit adjustments.

   In April 2013, legislation required that after the Bank's undivided profits are replenished, any repayments received by the Program shall be transferred to the State Treasurer for deposit in the State General Fund. As such, the Program owed the General Fund $16,278,244 as of June 30, 2013.

   The draft of the financial statements had classified the $16,278,244 as Net Position; however, should be classified as a liability. Therefore, Eide Bailly proposed an audit adjustment to reclassify the balance in Net Position to a Liability on the Program's statement of net position as of June 30, 2013 by recording a transfer out to the State's General Fund.

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 Rebuilders Loan 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, Bank of North Dakota Advisory Board, management, and the federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
October 28, 2013

CPAs & BUSINESS ADVISORS

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

We have audited the financial statements of the Rebuilders Loan Program (the Program), an enterprise fund of the State of North Dakota, for the year ended June 30, 2013. 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. We have communicated such information in our letter to you dated August 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Program are described in Note 1 to the financial statements. During 2013, the Program implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus;* GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements; and* GASB Statement No 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which did not have a significant effect on financial reporting. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Program'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. We noted the following misstatement, which we determined to be material to the financial statements taken as a whole. Management has corrected the misstatement.

| | | |
|---|---|---|
| Transfer Out | $16,278,244 | |
| Due to State General Fund | | $16,278,244 |

*To reclassify the balance in Net Position via a transfer to a long-term liability on the statement of net position as of June 30, 2013 because, during 2013, the North Dakota state legislature required that all repayments of loans are due back to the State's general fund after the Bank of North Dakota's undivided profits have been replenished.*

There were no 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 October 28, 2013.

**Management Consultations with Other Independent Accountants**

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

**Other Audit Findings or Issues**

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

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

Eide Bailly LLP

Aberdeen, South Dakota
October 28, 2013