



NORTH  
**Dakota** | Commerce  
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NORTH DAKOTA  
**DEVELOPMENT FUND**

ANNUAL REPORT 2022

SUPPORTING BUSINESS GROWTH THROUGH FINANCING AND INVESTMENT

## TABLE OF CONTENTS

Development Fund Board Members .....	2
Development Fund Staff .....	2
Funds and Programs .....	3
Letter from the CEO .....	8
Development Fund: By the Numbers .....	9
Development Fund Investment Locations .....	10
Development Fund Projects .....	11

### DEVELOPMENT IN ACTION

701x.....	12
Wee Folk Childcare LLC.....	12
Lucit .....	13
Cerilon GTL .....	14

### FINANCIALS

Independent Auditor's Report .....	15
------------------------------------	----

#### Financial Statements

Condensed Statement of Net Position .....	21
Condensed Statement of Revenues, Expenses and Changes in Net Position .....	22
Statements of Net Position .....	23
Statements of Revenues, Expenses and Changes in Net Position.....	24
Statements of Cash Flows.....	25

#### Combining Financial Statements and Supplementary Information

Combining Statements of Net Position.....	35
Combining Statements of Revenue, Expenses and Changes in Net Positions .....	36
Combining Statements of Cash Flows .....	37

Schedule of Findings and Responses.....	40
---	----

### Notes

Notes Page.....	46
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## DEVELOPMENT FUND BOARD OF DIRECTORS

The governor appoints an eight-member board of directors that oversees the North Dakota Development Fund (NDDF). The governor shall appoint the members and shall only consider representatives who serve in executive capacities from the following areas in making the selections: private sector manufacturing, finance, and exported services - including tourism, and industrial technology and research. There must be at least one member who is enrolled in a federally recognized North Dakota Indian tribe who need not serve in an executive capacity, the commissioner of commerce or the commissioner's designee, and one member from the rural area on the board of directors.



**Jim Albrecht - Wahpeton**  
President  
Manufacturing/ Rural Sector



**Erik Barner - Fargo**  
Vice President  
Finance Sector



**Rob Lindberg - Bismarck**  
Secretary/ Treasurer  
Industrial Tech. and Research Sector



**Joel Brown - Watford City**  
Industrial Tech. and Research Sector



**Lyndsay Ulrickson - Minot**  
Finance Sector



**Nathan Davis - Belcourt**  
Native American  
Representative Sector



**Joshua Teigen - Bismarck**  
North Dakota Department of  
Commerce Commissioner-Agency



Open Seat

## DEVELOPMENT FUND STAFF MEMBERS



**Jessica Nygaard**  
CEO



**Hannah Lange**  
Venture Finance Manager



**Samantha Mattson**  
Venture and Credit Analyst



## A TOOL FOR ECONOMIC DEVELOPMENT

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The North Dakota Development Fund (NDDF) was created through legislation in 1991 as an economic development tool. It provides flexible gap financing through debt and equity investments for new or expanding North Dakota primary sector businesses.

The NDDF is a statewide nonprofit development corporation, within Commerce's Division of Economic Development and Finance (ED&F). It has the authority to take equity positions in, to provide loans to, or use other innovative financing mechanisms to provide capital for new or expanding businesses in this state or relocating businesses to this state. The corporation's principal mission is to provide flexible financing to catalyze the development and expansion of businesses in the state of North Dakota.

The NDDF makes investments of up to \$3 million. The board of directors may adjust the limit when deemed appropriate. In general, the following criteria apply to NDDF investments:

### Philosophy -

- The Fund is the most flexible financing tool within the state of North Dakota.
- The Fund takes a disciplined approach to making informed underwriting decisions.
- The applicant(s) must have a realistic financial commitment at stake.
- The Fund is a team player in community economic development projects.
- Economic development starts at the local level. The community must be involved and supportive.
- The Fund connects entrepreneurs, investors, and the community with resources for assistance.

### Investment principles -

- To approve investments that have an economically productive or socially desirable purpose within the state and meet the Fund's credit standards.
- To maintain a diversified portfolio of investments that will limit the overall risk in the portfolio.
- To position the Fund to adapt to varying economic, technological, and competitive conditions.
- To manage the Fund within the Department of Commerce goals and objectives, appropriate risk limitations, and applicable laws and regulations.
- To leverage Fund investments with private financing.

Loan and equity programs managed by the North Dakota Development Fund include:

- North Dakota Development Fund
- Regional Rural Revolving Loan Fund
- Rural Incentive Growth Loan Program
- Child Care Loan Program
- Venture Capital Program
- ND Small Business Technology Program



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### North Dakota Development Fund's mission statement:

Provide flexible gap financing through loans and equity investments to spur the development and expansion of primary sector and main street businesses in the state of North Dakota.

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## A TOOL FOR ECONOMIC DEVELOPMENT

### Development Fund:

The NDDF provides flexible gap financing to new or expanding primary sector businesses in North Dakota. Funds are available through direct loans, participation loans, subordinated debt and equity investments.

**Use of funds:** NDDF funds may be used to provide working capital or to finance the purchase of fixed assets, but not to refinance existing debt. Funds may be used to purchase real property and equipment, expand existing facilities, provide working capital, and purchase inventory.

DEVELOPMENT FUND			
DEBT		EQUITY	
BORROWER	Any primary sector business	BORROWER	Any primary sector business
FUNDING LIMIT	Up to \$3 million Average loan: \$300,000	FUNDING LIMIT	Up to \$3 million Average convertible note: \$250,000
INTEREST RATE	Subject to risk of project	RATE OF RETURN	In cases of a preferred security or convertible note: Interest/Dividend Rate: Subject to risk of project
TERM	1-10 years, dependent upon project	TERM	1-10 years, dependent upon project
MINIMUM EQUITY REQUIREMENT	15%	MINIMUM EQUITY REQUIREMENT	15%
PERSONAL/CORPORATE GUARANTEES	Yes	PERSONAL/CORPORATE GUARANTEES	No
COST AND FEES	1% of capital deployed plus any legal fees incurred by NDDF	COST AND FEES	1% of original loan or equity balance plus any legal fees incurred by NDDF

### Child Care Loan Program:

The NDDF is authorized to provide financial assistance to new and expanding child care providers through the Child Care Loan Program.

**Eligible Organizations:** Licensed profit, nonprofit and public child care facilities. Faith-based organizations are eligible but must follow all appropriate federal guidelines if receiving federal subsidies.

**Eligible Uses:** Child Care Loan Program funds may be used for the acquiring, leasing, or remodeling of real estate facilities, purchasing equipment, or working capital.

CHILD CARE LOAN PROGRAM	
BORROWER	Any licensed child care provider
FUNDING LIMIT	Maximum of \$100,000 or based on availability of funds
INTEREST RATE	2.5% - Fixed
TERM	1-10 years, dependent upon project
MINIMUM EQUITY REQUIREMENT	N/A
PERSONAL/CORPORATE GUARANTEES	Yes
QUALIFICATIONS	A licensed North Dakota child care provider
COST AND FEES	\$250

## A TOOL FOR ECONOMIC DEVELOPMENT

### Regional Rural Development Revolving Loan Fund:

The NDDF administers the Regional Rural Development Revolving Loan Fund, which provides flexible gap financing to primary sector businesses located in a community of fewer than 8,000 in population or located more than five miles outside of city limits. Funds are available through direct loans, participation loans, subordinated debt and equity investments.

**Use of funds:** Regional Rural Development Revolving Loan Fund funds may be used to provide working capital or to finance the purchase of fixed assets, but not to refinance existing debt. Funds may be used to purchase real property and equipment, expand existing facilities, provide working capital, and purchase inventory.

REGIONAL RURAL DEVELOPMENT REVOLVING LOAN FUND			
DEBT		EQUITY	
BORROWER	Any primary sector business	BORROWER	Any primary sector business
FUNDING LIMIT	Up to \$3 million Average Award: \$300,000	FUNDING LIMIT	Up to \$3 million Average Award: \$250,000
INTEREST RATE	Subject to risk of project	RATE OF RETURN	In cases of a preferred security or convertible note: Interest/Dividend Rate: Subject to risk of project
TERM	1-10 years, dependent upon project	TERM	1-10 years, dependent upon project
MINIMUM EQUITY REQUIREMENT	15%	MINIMUM EQUITY REQUIREMENT	15%
PERSONAL/CORPORATE GUARANTEES	Yes	PERSONAL/CORPORATE GUARANTEES	No
COST AND FEES	1% of capital deployed plus any legal fees incurred by NDDF	COST AND FEES	1% of original loan or equity balance plus any legal fees incurred by NDDF
MISCELLANEOUS	For business located in cities with a population of fewer than 8,000 or more than five miles outside city limits	MISCELLANEOUS	For business located in cities with a population of fewer than 8,000 or more than five miles outside city limits

## A TOOL FOR ECONOMIC DEVELOPMENT

### Rural Growth Incentive Program:

The NDDF manages the Rural Growth Incentive Program which provides loans to Rural Growth Incentive cities for a qualifying business. Rural Growth Incentive cities must have a population less than 2,500 and be certified as a Rural Growth Incentive city by the North Dakota Department of Commerce. The city must raise dollar-for-dollar matching funds. A qualifying business must provide an essential service to the city which is determined by the city's governing body and Commerce.

Grant dollars of up to \$10,000 are available to Rural Growth Incentive cities for a feasibility study related to an essential business.

The NDDF must receive a letter from the community requesting funding which contains the information and documentation outlined below:

- Request for designation as a Rural Growth Incentive City
  - Requirement: Population of less than 2,500
- Request for loan and/or grant dollars
  - Up to \$10,000 grant to defray costs of a feasibility study
  - \$25,000-\$75,000 for a loan
- Documentation verifying the community's dollar-for-dollar match (any source of public/private funds)
  - Shall include a copy of the check, financial statement or receipt, as well as proof the funds were deposited into a designated account
- Statement from the community that the business qualifies for funding as an essential service company.
  - I.e., a company that provides an essential service(s) to the community
  - Does not include public utility
  - The governing body of the city determines whether a business qualifies for funding
  - Additionally, the Commerce Commissioner determines whether a business that provides an essential service qualifies for funding
- Complete the NDDF loan application including a business plan with financial information and sources and uses of the requested funds on behalf of the essential service company.
- The community shall also provide financial information to the NDDF.

Commerce is committed to providing the rural growth incentive city with training to assist in expanding businesses, locating new businesses, and working with state economic development programs. To that end, Commerce will designate an economic developer to work with the business upon request.



## A TOOL FOR ECONOMIC DEVELOPMENT

RURAL GROWTH INCENTIVE PROGRAM	
BORROWER	Cities with population of less than 2,500
FUNDING LIMIT	\$25,000-\$75,000
INTEREST RATE	Lower than market rate – subject to risk of project
TERM	Working capital 1-3 years, Equipment 3-5 years, Real estate 7-10 years
MINIMUM EQUITY REQUIREMENT	N/A
PERSONAL/CORPORATE GUARANTEES	Yes
QUALIFICATIONS	A North Dakota business that provides a community an essential service with ND Dept. of Commerce Commissioner approval
COST AND FEES	1% of original loan amount
MISCELLANEOUS	The loan is made to the city which in turn loans to the business Awards must have a 1:1 match

## LETTER FROM THE CEO



The North Dakota Development Fund (NDDF) invested \$9,364,00 in 12 primary sector and child care projects from July 1, 2021, to June 30, 2022. The NDDF coordinates efforts between all the sources of financing, the business, and the community. The NDDF provides “flexible financing” through loans and equity investments not available from most conventional lenders and is available to any primary sector business with the exception of production agriculture.

The NDDF reported an estimated operating income of \$1,727,934 before bad debt expense as of June 30, 2022, fiscal year-end, as compared to \$739,318 for the fiscal year ending June 30, 2021. The increase in the operating income in 2021 was attributable to an increase in dividend/interest income received from investments/loans and an increase in other income. Other income included loan fees, service charges to the Bank of North Dakota to manage the New Venture Capital Program, and a \$250,000 transfer from the

North Dakota Department of Commerce’s Momentum Fund. The cash flow decreased due to more disbursements on loans in 2022 than 2021.

The total revenue increased by \$713,366 from 2021 to \$1,747,312 in 2022. Change in cash and cash equivalents decreased by \$1,475,162 to \$18,178,825 (cash balance is before loan and investment commitments).

On Aug. 12, 2021, the board of directors voted to increase the funding limit from \$1 million to \$3 million. The NDDF is and will continue to be a revolving loan fund. By doing so the NDDF is able to use collected funds for future loan and equity investments.

Since the NDDF’s inception, it has invested \$3,550,110,693 in 878 projects with 319 projects invested in rural communities. NDDF investments have contributed to the projected creation of 9,182 primary sector jobs. The NDDF helped 12 businesses start or expand operations this fiscal year. Of the 12 businesses, two were in rural communities.

In providing flexible financing, the NDDF helped primary sector and child care businesses start up or expand, which in turn created new jobs and generated new revenues. What follows are the highlights of the 2021-2022 fiscal year along with the accompanying financial statements.

A handwritten signature in blue ink, reading "Jessica Nygaard". The signature is fluid and cursive, with the first name "Jessica" and last name "Nygaard" clearly legible.

Jessica Nygaard, CEO  
North Dakota Development Fund

# NORTH DAKOTA DEVELOPMENT FUND

## By the Numbers

NDDF  
Inception:

# 1991



# \$21.34:\$1

Return on investment

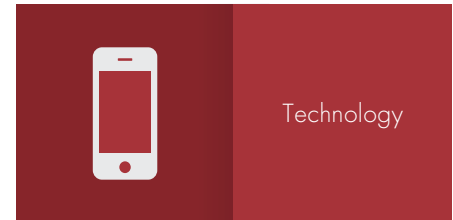
**9,182** Primary  
sector jobs created  
since fund inception



**878**  
PROJECTS

Investing in **878**  
North Dakota projects  
since inception

### Business sectors include:



Technology



Value-Added  
Agriculture



Value-Added  
Energy



Manufacturing

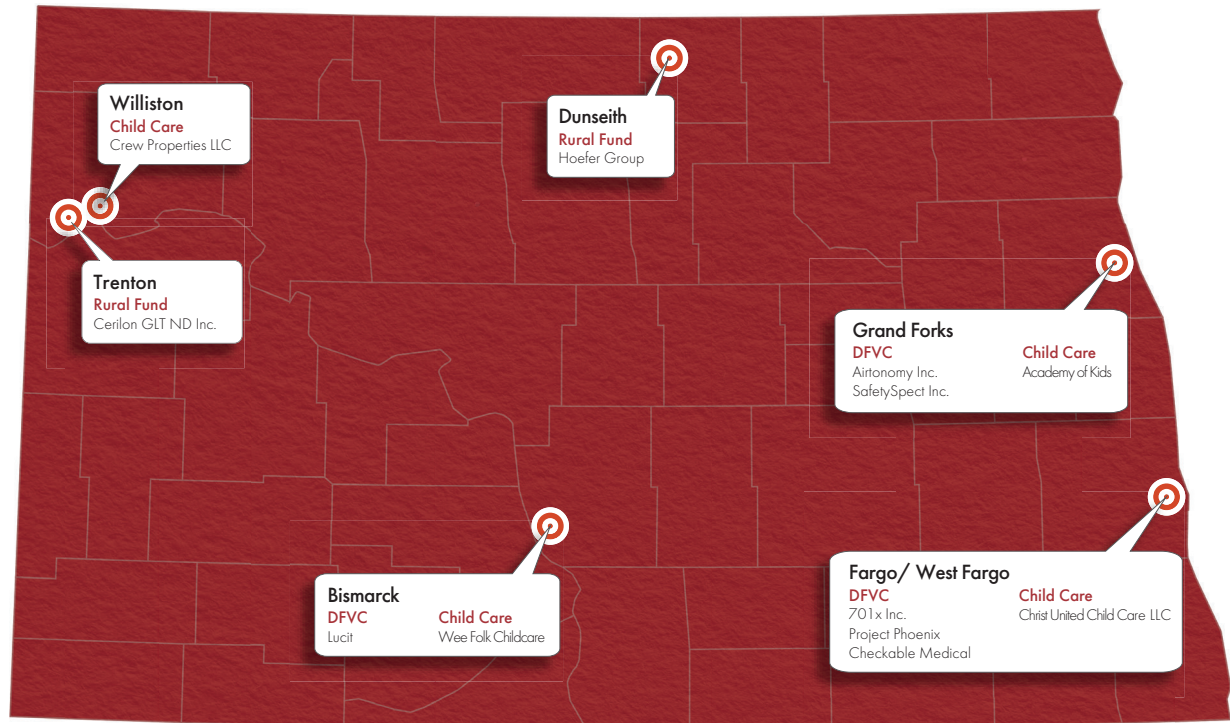


Child Care

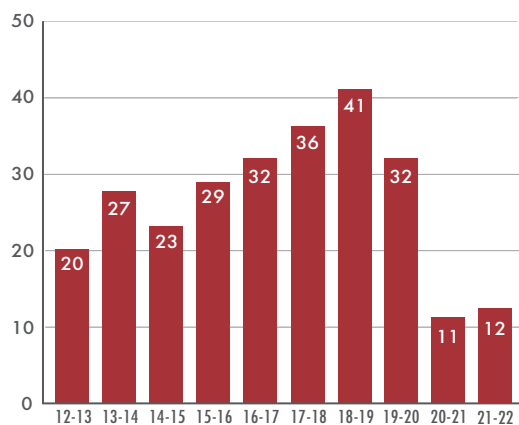


# NORTH DAKOTA INVESTMENT LOCATIONS

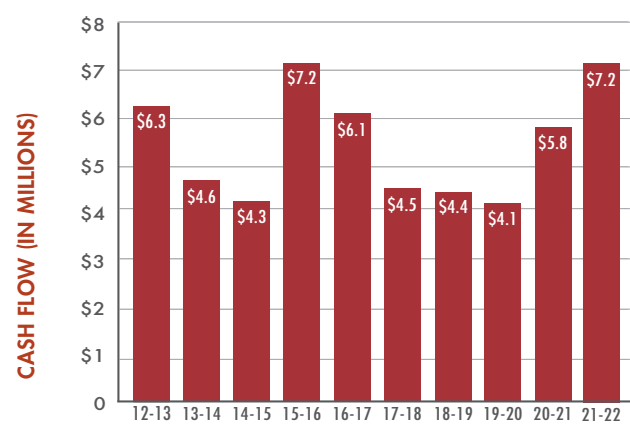
July 1, 2021–June 30, 2022



**Number of Development Fund Projects**



**Development Fund Cash Flow**



## DEVELOPMENT FUND PROJECTS

July 1, 2021 – June 30, 2022

Company	City	Amount of Funding
Lucit	Bismarck	\$600,000.00
701x Inc.	Fargo	\$500,000.00
Wee Folk Childcare	Bismarck	\$100,000.00
SafetySpect Inc	Grand Forks	\$480,000.00
Cerlion GLT ND Inc.	Trenton	\$3,000,000.00
Academy of Kids	Grand Forks	\$89,000.00
Hoefer Group	Dunseith	\$2,250,000.00
Airtonomy Inc.	Grand Forks	\$1,000,000.00
Project Phoenix	Fargo	\$150,000.00
Checkable Medical Inc.	West Fargo	\$1,000,000.00
Crew Properties LLC	Williston	\$100,000.00
Christ United Child Care LCC	West Fargo	\$95,000.00

**Total: \$9,364,000.00**

## NORTH DAKOTA DEVELOPMENT FUND - COMPANY SPOTLIGHTS

### 701x

701x Inc. is an S corporation, that was incorporated in North Dakota on Nov. 19, 2020. The mission of the company is to empower the livestock industry by promoting operational efficiencies through unprecedented data, tracking solutions, automation, and secure digital records. The company was founded by Kevin Biffert from Fargo, North Dakota.

701x designs and manufactures a wearable technology device for livestock in the form of an ear tag that compiles and transmits positioning and kinematic data to a database. To effectively use the data that is being generated from the wearable ear tag, software as a service (SaaS) will be provided to the rancher in a web-application. The web-application currently allows the user to track data and to view where their cattle are at all times.

The company launched their cattle management software in January and have the largest ranch in North Dakota using it. About 27 ranches have subscribed for 701x services. The company averages about one new subscription per day, but they offer free trials so not all convert to paying. On March 1, 2023, 701x is going to launch their ear tag and plan to have 750 tags ready to go on that day. 701x does their manufacturing in house. The tags are performing well in cold and minimal sunlight. 701x is looking to start raising \$3 million in March. The company is specifically looking for smart money from ranchers, Tyson or other ag tech venture capitalists. The company currently has 16 fulltime and four parttime employees.

The company requested funds from the NDDF to help fund the research and development, and production of the tags.

### Wee Folk Childcare, LLC

Wee Folk Childcare LLC owned by Sheila Morris, was seeking about \$2,195,907 in total financing to expand her operations to a child care center in Bismarck. Prior, Sheila ran a home daycare for 13 years. The funding was to be used to purchase and renovate a building located at 910 S 18th St. Bismarck, ND 58504. Funds were also used for supplies that were not eligible through the SBA 504.

Sheila requested \$100,000 from the NDDF to complete the funding package to help finance the purchase of a building. The \$100,000 financed a portion of the equipment and working capital not eligible for SBA 504 financing.



## NORTH DAKOTA DEVELOPMENT FUND - COMPANY SPOTLIGHTS

### Lucit

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Lucit LLC, founded in 2019, is a North Dakota company based in Bismarck, ND. The company's leadership, Eric Kubischta and Gina Gordon, have experience in the industry having been two of the founding members of BisManOnline. Lucit is focused on developing software solutions that help power digital creatives in out of home (OOH) advertising, primarily roadside digital billboards.

Lucit connects big ticket inventory systems to digital billboards worldwide. Whether this is in automotive, ag, or real estate they automatically connect to inventory systems, generate creatives, and give the client control over their advertising. The main differentiator of Lucit from its competition Fliphound and Blip is its ability to connect to inventory systems.

The company plans to offer three core products: digital out-of-home (OOH), on-premise signage, and programmatic digital out-of-home (programmatic DOOH). Currently, the company is marketing and selling the digital OOH product. The on-premise signage product is completed but does not have any sales. The company is still working to determine the best revenue model for this product. The programmatic DOOH product is not yet built. The company needs to add additional engineers to help build out this solution. The plan is to build this solution after the company is cashflow positive or if a funding opportunity like Innovative Technology Loan Fund (LIFT) is accessed.

Their first to market application launched in 2020 and is powering creatives for three digital OOH companies across four states in the U.S. Strategic partnerships are their focus. Currently, Lucit has three paying sign operators and five total clients. The product is offered by six different operators in four different states. Lucit has a contract with Formetco that offers their services to customers for free for one year. Additionally, the company is currently building out LucitXR which includes taking pictures of the billboards by contracting with a drone company.

Lucit, LLC requested \$600,000 to add sales staff to support and onboard new clients, add marketing staff to help promote the products, and working capital to scale.

The company was able to meet their stage two goal of reaching \$25,000 in total revenue after financing and hiring at least four additional North Dakota employees. The additional funds were just released on Aug. 1, 2022.

# NORTH DAKOTA DEVELOPMENT FUND - COMPANY SPOTLIGHTS

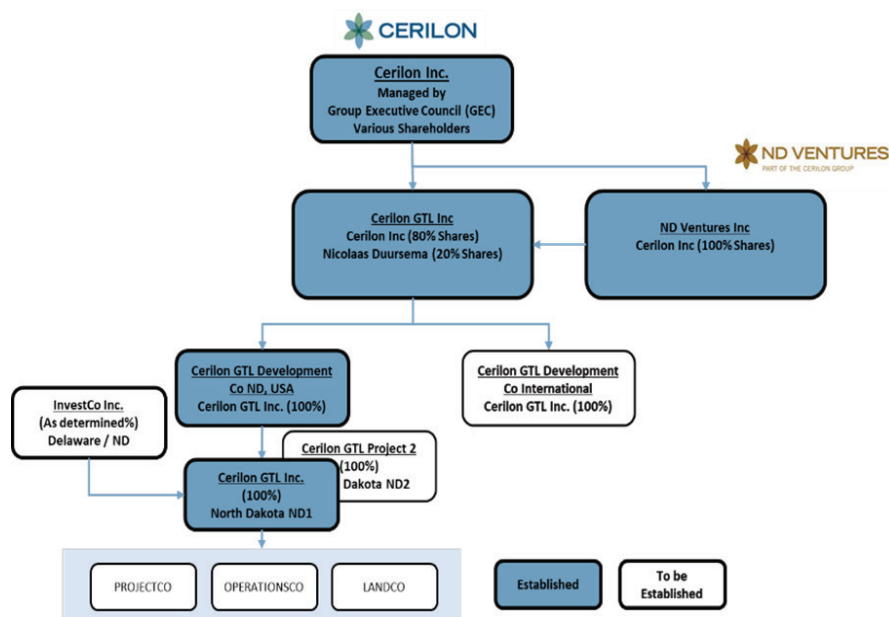
## Cerilon GTL

On May 11, 2012, NDV established the group parent Cerilon Inc. and sold NDV to Cerilon Inc. This created a tax efficient platform for Cerilon Inc. to grow. NDV continues to earn revenue and serve clients to develop their projects and businesses successfully. Cerilon GTL, a subsidiary of Cerilon Inc. was established on July 4, 2018.

Cerilon GTL is developing a gas-to-liquids (GTL) facility near Trenton, North Dakota with carbon capture and sequestration as a key project component. The project is progressing as planned with engineering and permitting work underway. Cerilon is establishing commercial arrangements and financing for the facility with a targeted Final Investment Decision (FID) in mid-2025. Construction is expected to start in 2025 with commercial start up in 2028. Smart manufacturing and state-of-the-art automation principles will provide the capability to apply Machine Learning (ML) and Artificial Intelligence (AI) for higher efficiency, improved plant availability, and flexibility. This approach will create highly skilled jobs in the region. The financial strength of the project results from an optimized product mix, the small volume of products produced locally relative to total local demand, the low impurity levels of products, an abundance of locally available natural gas, and other unique properties of the products. The project produces hydrogen and excess power and creates a platform for ammonia and fertilizer production.

With more than 400 combined years of experience in the GTL industry, Cerilon's principals have expertise across the entire conversion process from gas supply to product off-take including technology, engineering, construction, automation and operations. There are approximately 150 Cerilon team members and contractors working on the North Dakota project. The Cerilon team is also strengthened through partnerships with global commercial and technical experts.

ND Ventures Ltd. (NDV), the project development and execution arm of the Cerilon Group of Companies, was established on Sept. 25, 2009. NDV leverages the teams global integrated project development capabilities and provides consulting services to a variety of both private, government, and Indigenous clients.





INDEPENDENT AUDITOR’S REPORT

Governor of North Dakota  
The Legislative Assembly

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

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the accompanying financial statements of the North Dakota Development Fund, Inc (the Corporation), a component unit of the State of North Dakota as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Development Fund’s basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Business-Type Activities	Unmodified
Remaining Fund Information	Adverse

Adverse Opinion on Remaining Fund Information

In our opinion, because of the significance of the matter described in the “Basis for Adverse and Unmodified Opinions” paragraph, the financial statements referred to above do not present fairly the fiduciary position of the New Venture Capital Program Fund of the North Dakota Development Fund, Inc. as of June 30, 2022 and 2021, or the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on Business-Type Activities

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 Development Fund, Inc. as of June 30, 2022 and 2021, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements present only the North Dakota Development Fund, Inc. and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2022 and 2021, the changes in its financial position 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.

**Basis for Adverse and Unmodified Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Dakota Development Fund, Inc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Matter Giving Rise to Adverse Opinion on Aggregate Remaining Fund Information**

Management has not included the New Venture Capital Fund in the Corporation's financial statements. Accounting principles generally accepted in the United States of America require the New Venture Capital Fund to be presented as a custodial fund. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the omitted fund has not been determined.

**Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Development Fund, Inc's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

- 2 -

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individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Dakota Development Fund, Inc's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Development Fund, Inc's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements shown on pages 21 through 23 are

presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

November 14, 2022

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2022 AND 2021**

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2022. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

**Financial Highlights**

Total revenue increased by \$713,366 (68.99%) to \$1,747,312. Operating revenues increased by \$739,318 (74.78%) to \$1,727,934. The increase in total and in operating revenue is attributable to an increase in dividend/interest income received from investments/loans and an increase in other income. Other income included loan fees, service charges to the Bank of North Dakota to manage the New Venture Capital Program, and a \$250,000 transfer from the Department of Commerce's Momentum Fund. Cash flow decreased by \$1,488,323 (-113.09%) to (\$1,475,162). This large decrease is due to \$4,610,700 more disbursements on loans in 2022 than 2021. The Fund collected \$7,186,443 in principal payments in 2022, which was an increase of \$1,934,298 (36.83%) from 2021.

The Fund received \$120,000 in dividend payments in 2022 from equity investments made, compared to \$40,000 in dividend payments received in 2021. This increase is attributable to improvements in the economic condition of the portfolio company.

General and Administrative expense increased by \$165,469 (50.28%) from \$329,084 in 2021 to \$494,553 in 2022. The increase was attributable to resuming travel and in-person board meetings after the pandemic, adding a third full-time staff member, and employing a temporary worker for eight months.

Operating Income (loss) before non-operating revenues and expenses decreased by \$2,408,626 from (\$465,990) in 2021 to (\$2,874,616) in 2022. The decrease in the operating income (loss) in 2022 was attributable to an increase in provision for losses (change in allowance) of \$4,068,675.

Interest income on deposits decreased by \$25,952 (57.25%) from \$45,330 received in 2021 to \$19,378 received in 2022. The decrease was caused by the liquidation of three of three CDs in 2021 and less cash on hand due to investments made.

The Fund does invest their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. As of the end of FY 2022, the Fund had \$2 million in longer term certificates of deposit, which are at a higher rate of return earning more deposit interest which can be used to fund additional loan and equity investments to businesses in the State of North Dakota.

Cash and cash equivalents decreased by \$1,475,162 (7.51%) to \$18,178,825 (cash balance is before loan and investment commitments).

Net position decreased by \$2,746,530 from \$30,656,358 at the end of year 2021 to \$27,909,828 at the end of year 2022. The change was largely attributed to the increase in provisions for losses.

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

Noncurrent net assets excluding equipment (software) increased by \$739,804 from \$7,510,676 in 2021 to \$8,250,480 in 2022. The noncurrent assets consist of the Fund's net loan and equity investments. The net equity investments remained the same at \$250,000 from 2021 to 2022. The equity investments that were charged off during 2021 and 2022 was \$0. The Fund did not make any equity investments in 2022.

Net loans receivable increased by \$739,804 from \$7,260,676 in 2021 to \$8,000,480 in 2022. Loans receivable increased by \$2,780,611 from \$29,959,329 in 2021 to \$32,739,940 in 2022. The loan investments charged off during 2022 were \$34,793 as compared to \$370,433 in 2021. The increase in net loans receivable from 2021 to 2022 was attributable to an increase in loans funded, net of the regular paydown of loans and write-offs.

Interest receivable on loans increased by \$35,208 to \$191,418 in 2022 from \$156,210 in 2021. The increase in the receivable in 2022 is due to the loans made in 2022.

Current portion of loans receivable decreased from \$3,156,924 in 2021 to \$1,163,848 in 2022. The decrease is attributable to fewer loans maturing in fiscal year 2023.

On August 12, 2021, the board of directors voted to increase the funding limit from \$1,000,000 to \$3,000,000. During this fiscal year, 12 projects were funded totaling \$9,364,000.

**REQUIRED FINANCIAL STATEMENTS:**

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



**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**CONDENSED STATEMENT OF NET POSITION**  
**JUNE 30, 2022, 2021 AND 2020**

	2022	2021	2020
<b>Assets</b>			
Current assets	\$ 19,534,091	\$ 22,967,121	\$ 24,204,618
Capital assets, net	145,779	185,101	1,360
Noncurrent assets	8,250,480	7,510,676	6,877,225
Total noncurrent assets	8,396,259	7,695,777	6,878,585
Total assets	27,930,350	30,662,898	31,083,203
<b>Liabilities and net position</b>			
Current liabilities	20,522	6,540	6,185
Investment in capital assets	145,779	185,101	1,360
Restricted	12,447,491	12,117,875	-
Unrestricted	15,316,558	18,353,382	31,075,658
Total net position	\$ 27,909,828	\$ 30,656,358	\$ 31,077,018

*Cash and Cash Equivalents*

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

*Equity Investments*

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Note 3 to the financial statements.

*Loans Receivable*

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the statement of net position. Additional analysis of loans receivable can be found in Note 4.



**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2022, 2021 AND 2020**

	2022	2021	2020
Operating revenues			
Interest income on loans	\$ 1,267,160	\$ 858,311	\$ 754,077
Dividend income	120,000	40,000	105,544
Other	340,774	90,305	46,445
	<u>1,727,934</u>	<u>988,616</u>	<u>906,066</u>
Nonoperating revenue			
Interest income on deposits and investments	19,378	45,330	88,177
Total revenue	<u>1,747,312</u>	<u>1,033,946</u>	<u>994,243</u>
Operating expenses			
General and administrative	494,553	329,084	391,698
Depreciation expense	39,322	18,311	2,378
Bad debt expense	4,068,675	1,107,211	7,163,963
	<u>4,602,550</u>	<u>1,454,606</u>	<u>7,558,039</u>
Transfers			
Bank of North Dakota	108,708	-	15,000,000
Change in net position	(2,746,530)	(420,660)	8,436,204
Net position, beginning of year	<u>30,656,358</u>	<u>31,077,018</u>	<u>22,640,814</u>
Net position, end of year	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

*Economic Factors and Future Outlook*

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income and dividend income. Other financial impact could occur though such potential impact is unknown at this time.

On March 19, 2020 the Board of Directors voted to suspend loan payments and interest accrual on all NDDF loans where NDDF was not in a participant decision. On April 9, 2020, the Board of Directors voted to extend the COVID relief for an additional two months.

*Contacting the North Dakota Development Fund's Financial Management*

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2022 AND 2021**

Assets	2022	2021
Current assets		
Cash and cash equivalents	\$ 18,178,825	\$ 19,653,987
Interest receivable on loans	191,418	156,210
Current portion of loans receivable	1,163,848	3,156,924
Total current assets	19,534,091	22,967,121
Noncurrent assets		
Loans receivable, net of current portion and allowance	8,000,480	7,260,676
Investments, net	250,000	250,000
Equipment, net	145,779	185,101
Total noncurrent assets	8,396,259	7,695,777
Total assets	27,930,350	30,662,898
Liabilities and net position		
Current liabilities		
Accrued expenses	20,522	6,540
Net position		
Investment in capital assets	145,779	185,101
Restricted for:		
Regional Rural Development	10,869,786	10,664,161
Child Care	605,329	482,018
Small Business Technology	972,376	971,696
Unrestricted	15,316,558	18,353,382
Total net position	\$ 27,909,828	\$ 30,656,358

See Notes to Financial Statements

- 9 -

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues		
Interest income on loans	\$ 1,267,160	\$ 858,311
Dividend income	120,000	40,000
Other	340,774	90,305
	<u>1,727,934</u>	<u>988,616</u>
Operating expenses		
General and administrative	494,553	329,084
Depreciation expense	39,322	18,311
Provision for losses (change in allowance)	4,068,675	1,107,211
	<u>4,602,550</u>	<u>1,454,606</u>
Operating income (loss)	<u>(2,874,616)</u>	<u>(465,990)</u>
Nonoperating revenue		
Interest income on deposits and investments	<u>19,378</u>	<u>45,330</u>
Transfers		
Interfund	<u>108,708</u>	<u>-</u>
Change in net position	(2,746,530)	(420,660)
Net position, beginning of year	<u>30,656,358</u>	<u>31,077,018</u>
Net position, end of year	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>

See Notes to Financial Statements  
- 10 -

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
Operating activities		
Interest and dividend income	\$ 1,317,159	\$ 514,586
Other receipts	340,774	90,305
Payments to suppliers	(480,570)	(329,439)
Net cash provided (used) by operating activities	<u>1,177,363</u>	<u>275,452</u>
Investing activities		
Purchase of capital assets	-	(203,412)
Interest received on cash and cash equivalents	19,378	45,330
Disbursements on business loans	(9,967,054)	(5,356,354)
Principal payments received on business loans	7,186,443	5,252,145
Net cash provided (used) by Investing Activities	<u>(2,761,233)</u>	<u>(262,291)</u>
Financing activities		
Transfer	108,708	-
Net cash provided (used) by investing activities	<u>108,708</u>	<u>-</u>
Net change in cash and cash equivalents	(1,475,162)	13,161
Cash and cash equivalents, beginning of year	19,653,987	19,640,826
Cash and cash equivalents, end of year	<u>\$ 18,178,825</u>	<u>\$ 19,653,987</u>
Reconciliation of operating loss to net cash		
Provided by operating activities		
Operating income (loss)	\$ (2,874,616)	\$ (465,990)
Adjustments to reconcile operating income (loss)		
to net cash provided (used) by operating activities		
Depreciation	39,322	18,311
Provision for loan losses	4,068,675	(490,195)
Provision for equity investment losses	-	1,597,406
Write-offs	(34,793)	(370,443)
Reclassification of interest and dividend income	-	(13,282)
Changes in assets and liabilities:		
Accrued expense	13,983	(355)
Interest receivable	(35,208)	-
Net cash provided (used) by operating activities	<u>\$ 1,177,363</u>	<u>\$ 275,452</u>

See Notes to Financial Statements  
- 11 -

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

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

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

The following activities are used by the Corporation:

Development Fund

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

Regional Rural Development Revolving Loan Fund

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

Small Business Technology Investment Fund

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

Child Care Fund

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

Development Fund Venture Capital Program

The Development Fund Venture Capital Program is used to provide flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota.

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

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

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

**Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Statements, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

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

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

**Basis of Accounting**

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

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

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

**Revenue and Expense Recognition**

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions



**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

**Concentration of Credit Risk**

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

**Cash Equivalents**

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

**Equity Investments**

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 3).

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

**Expense Allocation**

The Development Fund pays all expenses of the Corporation.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

**Capital Assets and Depreciation**

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

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**Loans**

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

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

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

**Allowance for Loan Losses**

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**Restricted Resources**

It is the North Dakota Development Fund, Inc.'s policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

**NOTE 2      DEPOSITS**

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2022, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	<u>\$ 18,178,825</u>	<u>\$ 18,178,825</u>

As of June 30, 2021, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	<u>\$ 19,653,987</u>	<u>\$ 19,653,987</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

**Custodial and Concentration of Credit Risk**

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

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**NOTE 3 EQUITY INVESTMENTS**

Equity investments in business concerns as of June 30, 2022 and 2021 are as follows:

	2022	2021
Development fund venture capital	\$ 500,000	\$ 500,000
Valuation allowance - other than temporary impairment	(250,000)	(250,000)
Equity investments, net of allowance	<u>\$ 250,000</u>	<u>\$ 250,000</u>

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

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

Changes in the valuation allowance for equity investments as of June 30, 2022 and 2021 are as follows:

	2022	2021
Balance, beginning of year	\$ 250,000	\$ 250,000
Provision for equity investment losses	-	-
Transfers	-	-
Balance, end of year	<u>\$ 250,000</u>	<u>\$ 250,000</u>

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**NOTE 4      LOANS RECEIVABLE**

Loans receivable at June 30, 2022 and 2021 are as follows:

	2022	2021
Development Fund	\$ 11,964,563	\$ 13,709,900
Regional rural development revolving loan fund	5,312,284	5,921,706
Small business technology fund	50,000	50,000
Child care program	1,721,807	1,790,059
Development fund venture capital	13,691,286	8,487,664
	32,739,940	29,959,329
Allowance for loan losses	(23,575,610)	(19,541,729)
Loans receivable, net of allowance for losses	9,164,330	10,417,600
Less: current portion of loans receivable	1,163,848	3,156,924
Loans receivable, net of current portion	<u>\$ 8,000,482</u>	<u>\$ 7,260,676</u>

Changes in the allowance for loan losses as of June 30, 2022 and 2021 are as follows:

	2022	2021
Balance, beginning of year	\$ 19,541,729	\$ 18,804,961
Provision for loan losses (reserve decrease)	4,068,674	1,107,211
Write-offs	(34,793)	(370,443)
Balance, end of year	<u>\$ 23,575,610</u>	<u>\$ 19,541,729</u>

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**NOTE 5      EQUIPMENT**

A statement of changes in fixed assets for the years ended June 30, 2022 and 2021 are as follows:

	Balance 6/30/21	Additions	Deletions	Balance 6/30/22
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	(18,311)	(39,322)	-	(57,633)
	<u>\$ 185,101</u>	<u>\$ (39,322)</u>	<u>\$ -</u>	<u>\$ 145,779</u>

	Balance 6/30/20	Additions	Deletions	Balance 6/30/21
Furniture and equipment	\$ 37,539	\$ -	\$ (37,539)	\$ -
Computer software	48,345	203,412	(48,345)	203,412
Accumulated depreciation	(84,524)	(18,311)	84,524	(18,311)
	<u>\$ 1,360</u>	<u>\$ 185,101</u>	<u>\$ (1,360)</u>	<u>\$ 185,101</u>

**NOTE 6      COMMITMENTS AND CONTINGENCIES**

**Development Fund**

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$3,967,278.

**Regional Rural Development Revolving Loan Fund**

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$2,375,000.

**Child Care Loan Fund**

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$160,000.

**Development Fund Venture Capital Fund**

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2022 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$800,000.



**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022 AND 2021**

**NOTE 7      RELATED PARTY TRANSACTIONS**

The financial statements of the North Dakota Development Fund, Inc. include loans receivables in entities partially owned by members of the Board of Directors. The related party loans receivables have a balance of \$1,514,256 as of June 30, 2021.

**NOTE 8      RISK MANAGEMENT**

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

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

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

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

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 9      TRANSFERS**

During the year ended June 30, 2022, the North Dakota Development Fund purchased a loan from the Bank of North Dakota's New Venture Capital Program in the amount of \$108,708.

**NOTE 10     SUBSEQUENT EVENTS**

The corporation approved loans after year end totaling \$4,025,000. Subsequent events have been evaluated through November 14, 2022, which is the date these financial statements were available to be issued.

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**COMBINING STATEMENTS OF NET POSITION**  
**JUNE 30, 2022 AND 2021**

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021 (Memorandum only)
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 7,538,005	\$ 8,342,481	\$ 552,959	\$ 972,376	\$ 773,004	\$ 18,178,825	\$ 19,653,987
Interest receivable on loans	31,622	106,928	5,048	-	47,820	191,418	156,210
Current portion of loans receivable	578,446	563,721	21,681	-	-	1,163,848	3,156,924
Total current assets	8,148,073	9,013,130	579,688	972,376	820,824	19,534,091	22,967,121
Noncurrent assets							
Loans receivable, net of current portion and allowance	3,933,527	1,856,656	899,391	-	1,310,906	8,000,480	7,260,876
Interfund balances	873,750	-	(873,750)	-	-	-	-
Investments, net	-	-	-	-	250,000	250,000	250,000
Equipment, net	145,779	-	-	-	-	145,779	185,101
Total noncurrent assets	4,953,056	1,856,656	25,641	-	1,560,906	8,396,259	7,695,777
Total assets	13,101,129	10,869,786	605,329	972,376	2,381,730	27,930,350	30,662,898
<b>Liabilities and net position</b>							
Current liabilities							
Accrued expenses	20,522	-	-	-	-	20,522	6,540
Net position							
Investment in capital assets	145,779	-	-	-	-	145,779	185,101
Restricted	-	10,869,786	605,329	972,376	-	12,447,491	11,146,179
Unrestricted	12,934,828	-	-	-	2,381,730	15,316,558	19,325,078
Total net position	\$ 13,080,607	\$ 10,869,786	\$ 605,329	\$ 972,376	\$ 2,381,730	\$ 27,909,828	\$ 30,656,358

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021 (Memorandum only)
Operating revenues							
Interest income on loans	\$ 502,259	\$ 179,287	\$ 42,199	\$ -	\$ 543,415	\$ 1,267,160	\$ 858,311
Dividend income	-	-	-	-	120,000	120,000	40,000
Other	19,055	250,370	4,037	-	67,312	340,774	90,305
	<u>521,314</u>	<u>429,657</u>	<u>46,236</u>	<u>-</u>	<u>730,727</u>	<u>1,727,934</u>	<u>988,616</u>
Operating expenses							
General and administrative	494,553	-	-	-	-	494,553	329,084
Depreciation expense	39,322	-	-	-	-	39,322	18,311
Provision for losses (change in allowance)	(954,104)	243,492	(76,668)	-	4,855,955	4,068,675	1,107,211
	<u>(420,229)</u>	<u>243,492</u>	<u>(76,668)</u>	<u>-</u>	<u>4,855,955</u>	<u>4,602,550</u>	<u>1,454,606</u>
Operating income (loss)	<u>941,543</u>	<u>186,165</u>	<u>122,904</u>	<u>-</u>	<u>(4,125,228)</u>	<u>(2,874,616)</u>	<u>(465,990)</u>
Nonoperating revenue							
Interest income on deposits and investments	<u>8,111</u>	<u>8,671</u>	<u>407</u>	<u>680</u>	<u>1,509</u>	<u>19,378</u>	<u>45,330</u>
Transfers in (out)							
Interfund	<u>(2,216,880)</u>	<u>10,789</u>	<u>-</u>	<u>-</u>	<u>2,314,799</u>	<u>108,708</u>	<u>-</u>
Change in net position	<u>(1,267,226)</u>	<u>205,625</u>	<u>123,311</u>	<u>680</u>	<u>(1,808,920)</u>	<u>(2,746,530)</u>	<u>(420,660)</u>
Net position - beginning of year	<u>14,347,833</u>	<u>10,664,161</u>	<u>482,018</u>	<u>971,696</u>	<u>4,190,650</u>	<u>30,656,358</u>	<u>31,077,018</u>
Net position - end of year	<u>\$ 13,080,607</u>	<u>\$ 10,869,786</u>	<u>\$ 605,329</u>	<u>\$ 972,376</u>	<u>\$ 2,381,730</u>	<u>\$ 27,909,828</u>	<u>\$ 30,656,358</u>

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2022	2021
<b>Operating activities</b>							
Interest and dividend income	\$ 534,569	\$ 157,461	\$ 41,893	\$ -	\$ 583,236	\$ 1,317,159	\$ 514,586
Other receipts	19,055	250,370	4,037	-	67,312	340,774	90,305
Payments to suppliers	(480,570)	-	-	-	-	(480,570)	(329,439)
Net cash provided (used) by operating activities	73,054	407,831	45,930	-	650,548	1,177,363	275,452
<b>Investing activities</b>							
Purchase of capital assets	-	-	-	-	-	-	(203,412)
Interest received on cash and cash equivalents	8,111	8,671	407	680	1,509	19,378	45,330
Disbursements on business loans	(3,282,854)	(375,000)	(384,000)	-	(5,925,200)	(9,967,054)	(5,356,354)
Principal payments received on business loans	5,028,190	984,423	452,251	-	721,579	7,186,443	5,252,145
Net cash provided (used) by investing activities	1,753,447	618,094	68,658	680	(5,202,112)	(2,761,233)	(262,291)
<b>Financing activities</b>							
Transfer	(2,216,880)	10,789	-	-	2,314,799	108,708	-
Net cash provided (used) by financing activities	(2,216,880)	10,789	-	-	2,314,799	108,708	-
Net change in cash and cash equivalents	(390,379)	1,036,714	114,588	680	(2,236,765)	(1,475,162)	13,161
Cash and cash equivalents, beginning of year	7,928,384	7,305,767	438,371	971,696	3,009,769	19,653,987	19,640,826
Cash and cash equivalents, end of year	\$ 7,538,005	\$ 8,342,481	\$ 552,959	\$ 972,376	\$ 773,004	\$ 18,178,825	\$ 19,653,987
<b>Reconciliation of operating loss to net cash</b>							
Provided by operating activities							
Operating income (loss)	\$ 941,543	\$ 186,165	\$ 122,904	\$ -	\$ (4,125,228)	\$ (2,874,616)	\$ (465,990)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation	39,322	-	-	-	-	39,322	18,311
Provision for loan losses	(954,104)	243,492	(76,668)	-	4,855,955	4,068,675	(490,195)
Write-offs	-	-	-	-	(34,793)	(34,793)	(370,443)
Provision for equity investment losses	-	-	-	-	-	-	1,597,406
Reclassification of interest and dividend income	-	-	-	-	-	-	(13,282)
Changes in assets and liabilities:							
Accrued expense	13,983	-	-	-	-	13,983	(355)
Interest receivable	32,310	(21,826)	(306)	-	(45,386)	(35,208)	-
Net cash provided (used) by operating activities	\$ 73,054	\$ 407,831	\$ 45,930	\$ -	\$ 650,548	\$ 1,177,363	\$ 275,452



**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**

Governor of North Dakota  
The Legislative Assembly

Board of Directors  
North Dakota Development Fund, Inc  
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 North Dakota Development Fund, Inc, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 14, 2022. We expressed an adverse opinion on the remaining fund information, as the fiduciary net position was omitted from the North Dakota Development Fund, Inc.'s financial statements.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 deficiencies described in the

accompanying schedule of findings and responses as items 2022-001 and 2022-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-003 to be a significant deficiency.

#### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **North Dakota Development Fund Inc.'s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the North Dakota Development Fund, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and responses. North Dakota Development Fund, Inc.'s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

#### **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 result 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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

November 14, 2022



**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2022**

**2022-001: Preparation of Financial Statements**

Criteria

An appropriate system of internal controls requires the Corporation to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The Corporation's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Corporation does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Corporation has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Corporation elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatements to the Corporation's financial statements.

Recommendations

We recommend the Corporation consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

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

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**JUNE 30, 2022**

**2022-002: Proposition of Journal Entries**

Criteria

The Corporation is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The Corporation's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The Corporation's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials and Planned Corrective Actions

The NDDF transitioned to a new general ledger software system at the end of fiscal year 2021. The staff now has adequate internal controls and procedures in place to prevent misstatements in the future.

**NORTH DAKOTA DEVELOPMENT FUND, INC**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**JUNE 30, 2022**

**2022-003: Lack of Loan Documentation**

Criteria

Loan receivables and investments should have signed loan agreements and stock certificates supporting the amounts and terms of the loan agreement or investment.

Condition

There were 4 of 118 loans and investments that did not have supporting loan agreements or stock certificates.

Cause

Loan agreements or stock certificates were not kept or were unable to be found during audit fieldwork.

Effect

Loan receivables and investments could be overstated or agreements not honored by the other parties.

Recommendation

We recommend that all loan receivables and investments be supported by signed agreements or stock certificates.

Views of Responsible Officials and Planned Corrective Actions

The NDDF staff will scan and file all loan documents immediately after closing. Staff will work to acquire missing stock certificates and loan documents.



**INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE**

Governor of North Dakota  
The Legislative Assembly

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

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2022 audit of the North Dakota Development Fund, Inc are as follows:

**Audit Report Communications:**

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

Unmodified and Adverse. The financial information for the New Venture Capital Program Fund, which is the Fund we expressed an adverse opinion on, was omitted as this information is reported in the Bank of North Dakota's financial statements.

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, with the exception of finding 2022-003.

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

Yes, we noticed a lack of efficiency due to the limitations of the accounting software that the agency uses.

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

No, please see findings 2022-001 and 2022-002 noted on the Schedule of Findings and Responses.

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

Yes. We recommend management formally document their review process of bank reconciliations and change or improve their accounting software.

**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 those estimates.

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

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

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

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

3. Identify any significant audit adjustments.

Significant adjustments were made to reconcile beginning equity, to adjust interest receivable and interest income, to correctly record transfers between funds and to adjust the allowance for doubtful accounts.

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

None.

5. Identify any serious 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 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 report questions to be addressed by auditors are directly related to the operations of an information technology system.

Based on the audit procedures performed, the North Dakota Development Fund, Inc's critical information technology system is SPARAK and iCore. The exceptions identified that were directly related to this application include the recording of transfers between funds and the recording of interest receivables and interest income.

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

November 14, 2022



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NORTH  
**Dakota** | Commerce  
Be Legendary.

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