



Financial Statements  
June 30, 2024 and 2023

**North Dakota Development Fund, Inc.,  
A Component Unit of the State of North  
Dakota**

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## Independent Auditor's Report

Governor of North Dakota  
The Legislative Assembly

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of North Dakota Development Fund, Inc., a component unit of the State of North Dakota, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the North Dakota Development Fund, Inc.'s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the North Dakota Development Fund, Inc., as of June 30, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Correction of Error*

As discussed in Note 10 to the financial statements, the financial statements of the business-type activities have been restated to correct an error in the reporting of charge-offs in the statement of cash flows for the year ended June 30, 2023. Our opinions are not modified with respect to this matter.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the North Dakota Development Fund, Inc.. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2024 and 2023, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 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 GAAS 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, 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 GAAS 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 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 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 opinions on the financial statements that collectively comprise the North Dakota Development Fund, Inc.'s basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combined financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2024 on our consideration of the North Dakota Development Fund, Inc.'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 North Dakota Development Fund, Inc.'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 North Dakota Development Fund, Inc.'s internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
November 5, 2024

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 years ended June 30, 2024 and 2023. 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 \$87,403,045 (900%) to \$97,110,938. Operating revenues decreased by \$45,481 (3.43%) to \$1,281,038. Cash flow increased by \$11,428,463 (62.2%) to \$29,803,262. The Fund collected \$2,123,811 in principal payments in 2024, which was a decrease of \$4,302,497 (66.95%) from 2023. The increase in total revenue is primarily attributed to \$95,000,000 in state appropriations into the Fund and increased interest income on deposits. These appropriations comprised \$65,000,000 for fertilizer facility loan funding and \$30,000,000 from the legacy earnings fund. The decrease in operating revenues is due to decreased interest income on loans. The decrease in the total principal funds collected was, in part, attributable to the Fund receiving a lower payout of loans compared to 2023 and an increased proportion of the portfolio invested in company equity.

The Fund received \$125,000 in dividend payments in 2024 from equity investments made, compared to \$120,000 in dividend payments received in 2023.

General and Administrative expense increased by \$61,393 (10.31%) from \$595,436 in 2023 to \$656,829 in 2024. The increase was attributable to the staff salary and benefits and increases in travel and general operating expenses.

Operating Income (loss) before non-operating revenues and expenses increased by \$8,596,363 from \$282,934 in 2023 to (\$8,313,429) in 2024. The decrease in the operating income (loss) in 2024 was attributable to a higher amount of provision for allowance for losses.

Interest income on deposits increased by \$779,251 (1,538.53%) from \$50,649 received in 2023 to \$829,900 received in 2024. The increase was the result of larger balances carried at the Bank of North Dakota and investments in certificates of deposit.

Net position increased by \$87,516,471 from \$36,574,136 at the end of year 2023 to \$124,090,607 at the end of year 2024. The change in net position increased by \$78,852,163 from \$8,664,308 in 2023 to \$87,516,471 in 2024. The increase was attributable to \$95,000,000 in state appropriations into the Fund and increased interest income on deposits. The appropriations comprised \$65,000,000 for fertilizer facility loan funding and \$30,000,000 from the legacy earnings fund.

Noncurrent net assets (excluding equipment) increased by \$24,027,963 from \$13,629,658 in 2023 to \$37,722,036 in 2024. The noncurrent assets consist of the Fund's loan and equity investments. The loan investments increased by \$26,530,487 from \$29,180,208 in 2023 to \$55,710,695 in 2024. Equity investments increased by \$5,150,000 to \$13,526,201 in 2024 from \$8,376,201 in 2023. This increase is attributed to the conversion of convertible debt to equity and general new loan and investment growth.

Loan charge-offs decreased by \$2,459,453 from \$2,609,453 in 2023 to \$150,000 in 2024.

Interest receivable on loans increased by \$197,587 to \$388,481 in 2024.

Current portion of loans receivable decreased from \$2,303,128 in 2023 to \$1,208,696 in 2024. The decrease is attributable to loan maturities and increased company equity investments.

Cash and cash equivalents increased by \$11,428,463 (62.2%) to \$29,803,262 (cash balance is before loan and investment unfunded commitments). The increase in Cash and cash equivalents was attributable to \$95,000,000 of state appropriations transferred into the Fund while partially offset by an increase in the Fund's investing activities.

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. The Fund has invested more funds in longer term certificates of deposit, which are at a higher rate of return earning more deposit interest and putting the funds to work in loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

20 projects were funded totaling \$46,248,199.76 from July 1, 2023 to June 30, 2024.

### **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 Balance Sheet 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.



**Condensed Statements of Net Position  
June 30, 2024 and 2023, and 2022**

Assets	2024	2023	2022
Current assets	\$ 86,400,439	\$ 22,868,821	\$ 17,534,091
Capital assets, net	64,415	105,097	145,779
Noncurrent assets	37,657,621	13,629,658	10,250,480
Total noncurrent assets	37,722,036	13,734,755	10,396,259
Total assets	\$ 124,122,475	\$ 36,603,576	\$ 27,930,350
<b>Liabilities and Net Position</b>			
Current liabilities	\$ 31,868	\$ 29,440	\$ 20,522
Investment in capital assets	64,415	105,097	145,779
Restricted	13,477,236	12,808,615	12,447,491
Unrestricted	110,548,956	23,660,424	15,316,558
Total net position	124,090,607	36,574,136	27,909,828
Total liabilities and net position	\$ 124,122,475	\$ 36,603,576	\$ 27,930,350

**Cash and Cash Equivalents and Certificates of Deposit**

Cash and cash equivalents and certificates of deposit consist of deposits with the Bank of North Dakota and are included in the current and noncurrent assets section of the balance sheet. Additional discussion of cash and cash equivalents and certificates of deposit 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 balance sheet. Additional analysis of loans receivable can be found in Note 4 to the financial statements.

**Condensed Statement of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2024 and 2023, and 2022**

	2024	2023	2022
Operating Revenues	\$ 1,281,038	\$ 1,326,519	\$ 1,727,934
Nonoperating Revenue	95,829,900	8,381,374	128,086
Total Revenue	97,110,938	9,707,893	1,856,020
Operating Expenses			
General and administrative	656,829	595,436	494,553
Depreciation expense	40,682	40,682	39,322
Bad debt expense	8,896,956	407,467	4,068,675
	9,594,467	1,043,585	4,602,550
Change in Net Position	87,516,471	8,664,308	(2,746,530)
Net Position, Beginning of Year	36,574,136	27,909,828	30,656,358
Net Position, End of Year	\$ 124,090,607	\$ 36,574,136	\$ 27,909,828

**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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 29,803,262	\$ 18,374,799
Certificates of deposit	55,000,000	2,000,000
Interest receivable on loans	388,481	190,894
Current portion of loans receivable	<u>1,208,696</u>	<u>2,303,128</u>
Total current assets	<u>86,400,439</u>	<u>22,868,821</u>
Noncurrent Assets		
Certificates of deposit	-	-
Loans receivable, net of current portion and allowance	33,032,621	13,354,658
Equity Investments, net	4,625,000	275,000
Capital assets, net	<u>64,415</u>	<u>105,097</u>
Total noncurrent assets	<u>37,722,036</u>	<u>13,734,755</u>
Total assets	<u>\$ 124,122,475</u>	<u>\$ 36,603,576</u>
Liabilities and Net Position		
Current Liabilities		
Accrued expenses	<u>\$ 31,868</u>	<u>\$ 29,440</u>
Net Position		
Investment in capital assets	64,415	105,097
Restricted for		
Regional Rural Development	9,051,640	10,002,507
Child Care	4,218,095	620,942
Small Business Technology	-	975,356
State Small Business Credit Initiative	207,501	1,209,810
Unrestricted	<u>110,548,956</u>	<u>23,660,424</u>
Total net position	<u>124,090,607</u>	<u>36,574,136</u>
Total liabilities and net position	<u>\$ 124,122,475</u>	<u>\$ 36,603,576</u>

North Dakota Development Fund, Inc.  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Revenues		
Interest income on loans	\$ 1,065,786	\$ 1,119,081
Dividend income	125,000	125,000
Other	90,252	82,438
	1,281,038	1,326,519
Operating Expenses		
General and administrative	656,829	595,436
Depreciation expense	40,682	40,682
Provision for losses (change in allowance)	8,896,956	407,467
	9,594,467	1,043,585
Operating Income (Loss)	(8,313,429)	282,934
Nonoperating Revenue		
Interest income on deposits	829,900	50,649
State appropriations	95,000,000	8,330,725
Total nonoperating revenue	96,659,800	8,432,023
Change in Net Position	87,516,471	8,664,308
Net Position, Beginning of Year	36,574,136	27,909,828
Net Position, End of Year	\$ 124,090,607	\$ 36,574,136

North Dakota Development Fund, Inc.

Statements of Cash Flows  
Years Ended June 30, 2024 and 2023

	2024	2023 (as Restated)
Operating Activities		
Interest and dividend income received	\$ 1,823,098	\$ 1,295,254
Other receipts	90,255	82,438
Payments to vendors	(654,401)	(586,518)
Net Cash from Operating Activities	<u>1,258,952</u>	<u>791,174</u>
Investing Activities		
Purchase of equity investments	(4,770,000)	(1,980,000)
Purchase of certificates of deposit	(54,000,000)	-
Redemption of certificates of deposit	1,000,000	-
Disbursements of business loans	(29,184,300)	(11,372,233)
Principal payments received on business loans	2,123,811	6,426,308
Net Cash used for Investing Activities	<u>(84,830,489)</u>	<u>(6,925,925)</u>
Non-Capital Financing Activity		
State appropriations	95,000,000	8,330,725
Net Change in Cash and Cash Equivalents	11,428,463	2,195,974
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>18,374,799</u>	<u>16,178,825</u>
Cash and Cash Equivalents, End of Year	<u>\$ 29,803,262</u>	<u>\$ 18,374,799</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities		
Operating income (loss)	\$ (8,313,429)	\$ 282,934
Adjustments to reconcile operating income (loss) to net cash used for operating activities		
Depreciation	40,682	40,682
Provision for loan losses	8,476,958	(1,572,533)
Provision for equity investment losses	420,000	1,980,000
Reclassification of interest income on cash equivalents and certificates of deposit	829,900	50,649
Changes in assets and liabilities		
Accrued expenses	2,428	8,918
Interest receivable	(197,587)	524
Net Cash from Operating Activities	<u>\$ 1,258,952</u>	<u>\$ 791,174</u>
Supplemental Schedule of Non-cash Investing Activities		
Renewal of certificates of deposit	<u>\$ -</u>	<u>\$ -</u>
Loans converted to equities	<u>\$ 2,147,847</u>	<u>\$ 4,596,201</u>
Conversion of allowance for loans to allowance for equities	<u>\$ (380,000)</u>	<u>\$ (4,571,201)</u>

North Dakota Development Fund, Inc.  
Statements of Fiduciary Net Position – Fiduciary Funds  
June 30, 2024 and 2023

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	<u>Custodial Funds</u>	
	<u>2024</u>	<u>2023</u>
Assets		
Cash and Cash Equivalents	<u>\$ 70,559</u>	<u>\$ 70,858</u>
Net Position		
Restricted	<u>\$ 70,559</u>	<u>\$ 70,858</u>

North Dakota Development Fund, Inc.  
 Statements of Changes in Fiduciary Net Position – Fiduciary Funds  
 Years Ended June 30, 2024 and 2023

	Custodial Funds	
	2024	2023
Additions		
Loan payments received on loans owned by the Bank of North Dakota	\$ 389,770	\$ 55,033
Loan payments received on loans owned by the McKenzie County JDA	79,514	-
Total additions	469,284	55,033
Deductions		
Loan payments remitted to Bank of North Dakota	390,069	54,036
Loan payments remitted to McKenzie County JDA	79,514	-
Total deductions	469,583	54,036
Change in Net Position	(299)	997
Net Position, Beginning of Year	70,858	69,861
Net Position, End of Year	\$ 70,559	\$ 70,858

## **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 on a matching basis 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. This fund was extinguished during the year ended June 30, 2024 and remaining net assets of the Small Business Technology Investment Fund were transferred to the Development Fund.

#### 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 Loan Program

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



#### State Small Business Credit Initiative (SSBCI)

The State Small Business Credit Initiative is used to provide support to small businesses and entrepreneurs by giving them access to capital needs to create job opportunities.

#### American Rescue Plan Act (ARPA)

The American Rescue Plan Act is used to provide support to small businesses and entrepreneurs by giving them access to capital needs to create job opportunities.

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

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.

**Custodial Funds** – These funds account for assets held by the Corporation in a custodial capacity as an agent on behalf of others. The Corporation's custodial funds are used to account for loan payment deposits on loans owned by the Bank of North Dakota and McKenzie County Job Development Authority (JDA) that are serviced by the Corporation, and accordingly, net position is restricted for these purposes.

### **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 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 and equity investments consist primarily of loans and equity investments 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.

### **Certificates of Deposit**

Certificates of deposit are recorded at cost.

### **Equity Investments**

The Corporation records its equity investments at cost adjusted for impairment as determined by the Board of Directors. The impairment of equity investments is included in unrestricted net position. 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 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.

### **Loans**

Loans are reported at their outstanding unpaid principal adjusted for charge-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 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.

**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.

**Note 2 - Deposits**

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2024, the Corporation had the following:

	<u>Book Balance</u>	<u>Maturity Date</u>
Bank of North Dakota		
Cash and cash equivalents	\$ 29,803,262	N/A
Certificates of deposit	\$ 55,000,000	9/19/2024

Cash equivalents consist of money market deposit accounts.

As of June 30, 2023, the Corporation had the following:

	<u>Book Balance</u>	<u>Maturity Date</u>
Bank of North Dakota		
Cash and cash equivalents	\$ 18,374,799	N/A
Certificates of deposit	\$ 2,000,000	9/9/2023

**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, the custodial credit risk is 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.

**Note 3 - Equity Investments**

Equity investments in affiliates as of June 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Development Fund	\$ 2,654,997	\$ 1,272,497
Regional Rural Development Revolving Loan Fund	877,850	877,850
Small Business Technology Fund	-	50,000
Development Fund Venture Capital	7,428,354	4,195,854
State Small Business Credit Initiative	<u>2,565,000</u>	<u>1,980,000</u>
	13,526,201	8,376,201
Allowance for impairment	<u>(8,901,201)</u>	<u>(8,101,201)</u>
	<u>\$ 4,625,000</u>	<u>\$ 275,000</u>

Among the factors considered in determining whether an 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 Corporation 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, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 8,101,201	\$ 1,550,000
Provision for equity investment losses	420,000	1,980,000
Conversion of allowance for loans to allowance for equities	<u>380,000</u>	<u>4,571,201</u>
Balance, end of year	<u>\$ 8,901,201</u>	<u>\$ 8,101,201</u>

**Note 4 - Loans Receivable**

Loans receivable at June 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Development Fund	\$ 34,933,117	\$ 11,874,158
Regional Rural Development Revolving Loan Fund	7,860,332	8,446,995
Child Care Program	5,836,700	1,808,005
State Small Business Credit Initiative	435,000	65,000
Development Fund Venture Capital	<u>6,645,546</u>	<u>6,986,050</u>
Allowance for loan losses	<u>55,710,695</u> <u>(21,469,378)</u>	<u>29,180,208</u> <u>(13,522,422)</u>
Loans receivable, net of allowance for loan losses	34,241,317	15,657,786
Less current portion of loans receivable	<u>1,208,696</u>	<u>2,303,128</u>
Loans receivable, net of current portion	<u><u>\$ 33,032,621</u></u>	<u><u>\$ 13,354,658</u></u>

Changes in the allowance for loan losses as of June 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 13,522,422	\$ 22,275,610
Provision for loan losses (reserve decrease)	8,476,956	(1,572,534)
Conversion of allowance for loans to allowance for equities	(380,000)	(4,571,201)
Write-offs	<u>(150,000)</u>	<u>(2,609,453)</u>
Balance, end of year	<u><u>\$ 21,469,378</u></u>	<u><u>\$ 13,522,422</u></u>

**Note 5 - Capital Assets**

A statement of changes in capital assets for the years ended June 30, 2024 and 2023 is as follows:

	Balance 07/01/23	Additions	Deletions	Balance 06/30/24
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	(98,315)	(40,682)	-	(138,997)
	<u>\$ 105,097</u>	<u>\$ (40,682)</u>	<u>\$ -</u>	<u>\$ 64,415</u>
	Balance 07/01/22	Additions	Deletions	Balance 06/30/23
Computer software	\$ 203,412	\$ -	\$ -	\$ 203,412
Accumulated depreciation	(57,633)	(40,682)	-	(98,315)
	<u>\$ 145,779</u>	<u>\$ (40,682)</u>	<u>\$ -</u>	<u>\$ 105,097</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, 2024 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$14,547,000.

**Regional Rural Development Revolving Loan Fund**

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2024 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$3,000,000.



**Note 7 - Related Party Transactions**

The financial statements of the North Dakota Development Fund, Inc. include loans receivable in entities partially owned by members of the Board of Directors. The financial statements include four related party loans receivable, respectively, as of June 30, 2024 and 2023. The related party loan receivables have a gross loan balance of \$3,878,000 and \$3,830,000, respectively, as of June 30, 2024 and 2023. The related party loan receivables have a reserve allowance of (\$2,378,000) and (\$2,330,000), respectively, as of June 30, 2024 and 2023.

Contracted salaries and benefits for North Dakota Department of Commerce employees incurred by the Corporation totaled \$487,708 and \$388,752, respectively, for the years ended June 30, 2024 and 2023.

See Note 9 for state appropriations.

During the year ended June 30, 2024, North Dakota Development Fund, Inc. purchased an equity investment from Wonder Fund North Dakota, an entity of which the State of North Dakota has an investment interest, in the amount of \$1,250,000.

**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 - State Appropriations

During the year ended June 30, 2024, the Corporation received a state appropriation of \$65,000,000 from the Strategic Investment and Improvements Fund in accordance with the requirements of House Bill No. 1018. During the year ended June 30, 2024, the Corporation received a state appropriation of \$30,000,000 from the Strategic Investment and Improvements Fund in accordance with the requirements of Senate Bill No. 2015.

During the year ended June 30, 2023, the Corporation received a state appropriation of \$5,000,000 from the North Dakota General Fund of American Rescue Plan Act (ARPA) program funds. As of June 30, 2024, no ARPA funds had been expended. In addition, the Corporation received a state appropriation of \$3,330,466 from the North Dakota Department of Commerce for the State Small Business Credit Initiative program.

### Note 10 - Restatement

In its previously issued financial statements, the Corporation had a classification misstatement in its statement of cash flows for the year ended June 30, 2023. Management corrected the error by recording the following prior period adjustment to the business-type activities:

<b>Statements of Cash Flows</b>	<b>Business-Type Activities</b>
For the year ended June 30, 2023	
Provision for loan losses, as previously reported	\$ (4,181,986)
Restatement for charge-offs being a separate component in the statement of cash flows	<u>2,609,453</u>
Provision for loan losses, as restated	<u>\$ (1,572,533)</u>
Charge-offs, as previously reported	\$ 2,609,453
Restatement for charge-offs being a separate component in the statement of cash flows	<u>(2,609,453)</u>
Charge-offs, as restated	<u>\$ -</u>



Supplementary Information  
June 30, 2024 and 2023

**North Dakota Development Fund, Inc.**

North Dakota Development Fund, Inc.  
Combining Statements of Net Position  
June 30, 2024 and 2023

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2024	2023 (Memorandum only)
<b>Assets</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 18,583,435	\$ 5,511,804	\$ 15,850	\$ -	\$ 442,312	\$ 207,501	\$ 5,042,360	\$ 29,803,262	\$ 18,374,799
Certificates of deposit	55,000,000	-	-	-	-	-	-	55,000,000	2,000,000
Interest receivable on loans	3,364	2,457	4,649	-	378,011	-	-	388,481	190,894
Current portion of loans receivable	488,698	376,774	302,236	-	40,988	-	-	1,208,696	2,303,128
<b>Total current assets</b>	<b>74,075,497</b>	<b>5,891,035</b>	<b>322,735</b>	<b>-</b>	<b>861,311</b>	<b>207,501</b>	<b>5,042,360</b>	<b>86,400,439</b>	<b>22,868,821</b>
<b>Noncurrent Assets</b>									
Loans receivable, net of current portion and allowance	23,671,444	3,160,605	4,769,110	-	1,431,462	-	-	33,032,621	13,354,658
Intrafund balances	873,750	-	(873,750)	-	-	-	-	-	-
Equity investments, net	625,000	-	-	-	4,000,000	-	-	4,625,000	275,000
Capital assets, net	64,415	-	-	-	-	-	-	64,415	105,097
<b>Total noncurrent assets</b>	<b>25,234,609</b>	<b>3,160,605</b>	<b>3,895,360</b>	<b>-</b>	<b>5,431,462</b>	<b>-</b>	<b>-</b>	<b>37,722,036</b>	<b>13,734,755</b>
<b>Total assets</b>	<b>\$ 99,310,106</b>	<b>\$ 9,051,640</b>	<b>\$ 4,218,095</b>	<b>\$ -</b>	<b>\$ 6,292,773</b>	<b>\$ 207,501</b>	<b>\$ 5,042,360</b>	<b>\$ 124,122,475</b>	<b>\$ 36,603,576</b>
<b>Liabilities and Net Position</b>									
<b>Current Liabilities</b>									
Accrued expenses	\$ 31,868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,868	\$ 29,440
<b>Total liabilities</b>	<b>31,868</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,868</b>	<b>29,440</b>
<b>Net Position</b>									
Investment in capital assets	64,415	-	-	-	-	-	-	64,415	105,097
Restricted	-	9,051,640	4,218,095	-	-	207,501	-	13,477,236	12,808,615
Unrestricted	99,213,823	-	-	-	6,292,773	-	5,042,360	110,548,956	23,660,424
<b>Total net position</b>	<b>99,278,238</b>	<b>9,051,640</b>	<b>4,218,095</b>	<b>-</b>	<b>6,292,773</b>	<b>207,501</b>	<b>5,042,360</b>	<b>124,090,607</b>	<b>36,574,136</b>
<b>Total liabilities and net position</b>	<b>\$ 99,310,106</b>	<b>\$ 9,051,640</b>	<b>\$ 4,218,095</b>	<b>\$ -</b>	<b>\$ 6,292,773</b>	<b>\$ 207,501</b>	<b>\$ 5,042,360</b>	<b>\$ 124,122,475</b>	<b>\$ 36,603,576</b>

North Dakota Development Fund, Inc.  
Combining Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2024 and 2023

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2024	2023 (Memorandum only)
<b>Operating Revenues</b>									
Interest income on loans	\$ 305,064	\$ 354,962	\$ 62,778	\$ -	\$ 342,981	\$ 1	\$ -	\$ 1,065,786	\$ 1,119,081
Dividend income	-	-	-	-	125,000	-	-	125,000	125,000
Other	58,645	911	6,311	-	23,487	898	-	90,252	82,438
	<u>363,709</u>	<u>355,873</u>	<u>69,089</u>	<u>-</u>	<u>491,468</u>	<u>899</u>	<u>-</u>	<u>1,281,038</u>	<u>1,326,519</u>
<b>Operating Expenses</b>									
General and administrative	604,297	-	-	-	-	49,978	2,554	656,829	595,436
Depreciation expense	40,682	-	-	-	-	-	-	40,682	40,682
Provision for losses (change in allowance)	7,086,883	1,364,816	(57,639)	-	(452,104)	955,000	-	8,896,956	407,467
	<u>7,731,862</u>	<u>1,364,816</u>	<u>(57,639)</u>	<u>-</u>	<u>(452,104)</u>	<u>1,004,978</u>	<u>2,554</u>	<u>9,594,467</u>	<u>1,043,585</u>
<b>Operating Income (Loss)</b>	<u>(7,368,153)</u>	<u>(1,008,943)</u>	<u>126,728</u>	<u>-</u>	<u>943,572</u>	<u>(1,004,079)</u>	<u>(2,554)</u>	<u>(8,313,429)</u>	<u>282,934</u>
<b>Nonoperating Revenue</b>									
Interest income on deposits	737,245	58,076	425	32	2,114	1,770	30,238	829,900	50,649
State appropriations	95,000,000	-	-	-	-	-	-	95,000,000	8,330,725
<b>Total nonoperating revenue</b>	<u>95,737,245</u>	<u>58,076</u>	<u>425</u>	<u>32</u>	<u>2,114</u>	<u>1,770</u>	<u>30,238</u>	<u>95,829,900</u>	<u>8,381,374</u>
<b>Transfers</b>	<u>(2,494,612)</u>	<u>-</u>	<u>3,470,000</u>	<u>(975,388)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	<u>85,874,480</u>	<u>(950,867)</u>	<u>3,597,153</u>	<u>(975,356)</u>	<u>945,686</u>	<u>(1,002,309)</u>	<u>27,684</u>	<u>87,516,471</u>	<u>8,664,308</u>
<b>Net Position, Beginning of Year</b>	<u>13,403,758</u>	<u>10,002,507</u>	<u>620,942</u>	<u>975,356</u>	<u>5,347,087</u>	<u>1,209,810</u>	<u>5,014,676</u>	<u>36,574,136</u>	<u>27,909,828</u>
<b>Net Position, End of Year</b>	<u>\$ 99,278,238</u>	<u>\$ 9,051,640</u>	<u>\$ 4,218,095</u>	<u>\$ -</u>	<u>\$ 6,292,773</u>	<u>\$ 207,501</u>	<u>\$ 5,042,360</u>	<u>\$ 124,090,607</u>	<u>\$ 36,574,136</u>

North Dakota Development Fund, Inc.  
Combining Statements of Cash Flows  
Years Ended June 30, 2024 and 2023

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2024	2023 (Memorandum only)
<b>Operating Activities</b>									
Interest and dividend income received	\$ 1,044,452	\$ 413,725	\$ 60,019	\$ 32	\$ 272,862	\$ 1,770	\$ 30,238	\$ 1,823,098	\$ 1,295,254
Other receipts	58,647	912	6,311	-	23,486	899	-	90,255	82,438
Payments to vendors	(601,869)	-	-	-	-	(49,978)	(2,554)	(654,401)	(586,518)
<b>Net Cash from (used for) Operating Activities</b>	<b>501,230</b>	<b>414,637</b>	<b>66,330</b>	<b>32</b>	<b>296,348</b>	<b>(47,309)</b>	<b>27,684</b>	<b>1,258,952</b>	<b>791,174</b>
<b>Non-Capital Financing Activities</b>									
State appropriations	95,000,000	-	-	-	-	-	-	95,000,000	8,330,725
Transfers	(2,494,612)	-	3,470,000	(975,388)	-	-	-	-	-
<b>Net Cash from (used for) Financing Activities</b>	<b>92,505,388</b>	<b>-</b>	<b>3,470,000</b>	<b>(975,388)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95,000,000</b>	<b>8,330,725</b>
<b>Investing Activities</b>									
Purchase of equity investments	(1,250,000)	-	-	-	(3,000,000)	(520,000)	-	(4,770,000)	(1,980,000)
Purchase of certificates of deposit	(54,000,000)	-	-	-	-	-	-	(54,000,000)	-
Redemption of certificates of deposit	-	1,000,000	-	-	-	-	-	1,000,000	-
Disbursements of business loans	(24,295,016)	-	(4,406,284)	-	(48,000)	(435,000)	-	(29,184,300)	(11,372,233)
Principal received on business loans	1,003,556	586,663	377,588	-	156,004	-	-	2,123,811	6,426,308
<b>Net Cash from (used for) Investing Activities</b>	<b>(78,541,460)</b>	<b>1,586,663</b>	<b>(4,028,696)</b>	<b>-</b>	<b>(2,891,996)</b>	<b>(955,000)</b>	<b>-</b>	<b>(84,830,489)</b>	<b>(6,925,925)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>14,465,158</b>	<b>2,001,300</b>	<b>(492,366)</b>	<b>(975,356)</b>	<b>(2,595,648)</b>	<b>(1,002,309)</b>	<b>27,684</b>	<b>11,428,463</b>	<b>2,195,974</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,118,277</b>	<b>3,510,504</b>	<b>508,216</b>	<b>975,356</b>	<b>3,037,960</b>	<b>1,209,810</b>	<b>5,014,676</b>	<b>18,374,799</b>	<b>16,178,825</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 18,583,435</b>	<b>\$ 5,511,804</b>	<b>\$ 15,850</b>	<b>\$ -</b>	<b>\$ 442,312</b>	<b>\$ 207,501</b>	<b>\$ 5,042,360</b>	<b>\$ 29,803,262</b>	<b>\$ 18,374,799</b>

North Dakota Development Fund, Inc.  
Combining Statements of Cash Flows  
Years Ended June 30, 2024

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	State Small Business Credit Initiative	American Rescue Plan Act (ARPA)	2024	2023 (Memorandum only) (as Restated)
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities									
Operating income (loss)	\$ (7,368,153)	\$ (1,008,943)	\$ 126,728	\$ -	\$ 943,572	\$ (1,004,079)	\$ (2,554)	\$ (8,313,429)	\$ 282,934
Adjustments to reconcile operating (loss) income to net cash from (used for) operating activities									
Depreciation	40,682	-	-	-	-	-	-	40,682	40,682
Provision for loan losses	6,461,885	1,364,816	(57,639)	-	272,896	435,000	-	8,476,958	(1,572,533)
Provision for equity investment losses	625,000	-	-	-	(725,000)	520,000	-	420,000	1,980,000
Reclassification of interest income on cash equivalents and certificates of deposit	737,245	58,076	425	32	2,114	1,770	30,238	829,900	50,649
Changes in Assets and Liabilities									
Accrued expenses	2,428	-	-	-	-	-	-	2,428	8,918
Interest receivable	2,143	688	(3,184)	-	(197,234)	-	-	(197,587)	524
Net Cash from (used for) Operating Activities	<u>\$ 501,230</u>	<u>\$ 414,637</u>	<u>\$ 66,330</u>	<u>\$ 32</u>	<u>\$ 296,348</u>	<u>\$ (47,309)</u>	<u>\$ 27,684</u>	<u>\$ 1,258,952</u>	<u>\$ 791,174</u>
Supplemental Schedule of Non-cash Investing Activities									
Renewal of certificates of deposit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans converted to equities	<u>\$ 972,497</u>	<u>\$ 877,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,500</u>	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ 2,147,847</u>	<u>\$ 4,596,201</u>
Conversion of allowance for loans to allowance for equities	<u>\$ (82,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (232,500)</u>	<u>\$ (65,000)</u>	<u>\$ -</u>	<u>\$ (380,000)</u>	<u>\$ (4,571,201)</u>



## **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 requires a separate audit summary from certified public accountants performing audits of state agencies. The separate audit summary regarding the June 30, 2024 audit of the North Dakota Development Fund, Inc. (the Corporation) is as follows:

### **Purpose of the Audit**

North Dakota Development Fund, Inc. is a component unit of the financial statements of the state of North Dakota. The purpose of the audit of the Corporation is to express an opinion on the financial statements of the Corporation.

The objectives of our audit of the financial statements 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 opinion. 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 auditing standards generally accepted in the United States of America (GAAS) and in accordance with *Government Auditing Standards*, will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually and in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

### **Type of Audit Opinion**

We issued an unmodified opinion on the financial statements of the Corporation.

### **Findings and Recommendations**

We have the following findings and recommendations that we communicated as a result of our audit. For further details on the findings, please see the schedule of findings and responses.

- 2024-001 – Preparation of Financial Statements
- 2024-002 – Material Proposed Audit Adjustments including Restatement
- 2024-003 – Lack of Segregation of Duties
- 2024-004 – Loan Interest Income Accounting and Reconciliation
- 2024-005 – Loan and Equity Investment Risk Rating Controls



**Status of Prior Recommendations**

Prior finding 2023-001 was repeated in the current year as finding 2024-001.

Prior finding 2023-002 was repeated in the current year as finding 2024-002.

Prior finding 2023-003 was repeated in the current year as finding 2024-003.

Prior finding 2023-004 was repeated in the current year as finding 2024-004.

**Explanations of Significant Audit Adjustments and Misstatements**

See page 31 for material audit adjustments that were identified as a result of the audit procedures performed which were brought to the attention of, and corrected by, management. Also, a restatement audit adjustment in the amount of \$2,609,453 was proposed in the statement of cash flows for the year ended June 30, 2023, as noted in Note 10 of the financial statements.

**Disagreements with Management or Difficulties Encountered during the Audit**

No disagreements with management arose during the course of the audit.

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

**Other Audit Report Highlights**

None

**Cost of the Audit Compared to the Prior Audit**

The cost of the 2024 North Dakota Development Fund, Inc. audit was \$49,000.

The cost of the 2023 North Dakota Development Fund, Inc. audit was \$49,000.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, North Dakota Development Fund, Inc. Board of Directors and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.



Bismarck, North Dakota  
November 5, 2024

	Debit	Credit
<b>Business-Type Activities:</b>		
Intrafund transfers - NDDF	\$ 2,444,612	
Intrafund transfers - Small Business Technology	1,025,388	
Intrafund transfers - Child Care Fund		\$ 3,470,000
<i>To adjust for trial balance not balancing by fund.</i>		
Interest Income	116,113	
Interest Receivable		116,113
<i>To adjust interest receivable and interest income to actual</i>		
Interest receivable - Small Business Technology	36,287	
Loans receivable - Small Business Technology	50,000	
Reserve for equity loss - Small Business Technology	50,000	
Equity investments - Small Business Technology		50,000
Interest income - Small Business Technology		36,287
Fund transfers - Small Business Technology		50,000
<i>To close out dissolved Small Business Technology fund</i>		
Equity investments	1,613,050	
Reserve for equity investment losses	9,936,108	
Provision for loan losses	11,466,109	
Fund transfers	50,000	
Provision for equity investment losses		11,516,109
Reserve for loan losses		9,936,108
Loans receivable		1,613,050
<i>To appropriately classify loans, equities, reserves, and provisions for losses</i>		
Reserve for Loan and Equity Investment Loss	458,622	
Provision for Loan and Equity Investment Loss		458,622
<i>To adjust reserve for loan and equity investment loss to actual</i>		
Interest receivable	2,686,826	
Interest income		2,686,826
<i>To adjust for client's improper accounting of nonaccrual loans</i>		
	Debit	Credit
<b>Aggregate Remaining Fund</b>		
Net Position, July 1, 2023 - Custodial Fund		2,299
Custodial Fund Expense	390,069	
Custodial Fund Revenue		387,770
<i>To record current year activity of the custodial fund</i>		



**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 (*Government Auditing Standards*), the financial statements of the business-type activities and the aggregate remaining fund information of the North Dakota Development Fund, Inc., a component unit of the State of the North Dakota, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise North Dakota Development Fund, Inc.’s basic financial statements, and have issued our report thereon dated November 5, 2024

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Development Fund, Inc.’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Development Fund, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Development Fund, Inc.’s internal control.

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

Our consideration of internal control 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001, 2024-002, 2024-003, 2024-004, and 2024-005 that we consider to be material weaknesses.

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

As part of obtaining reasonable assurance about whether North Dakota Development Fund, Inc.'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 Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on North Dakota Development Fund, Inc.'s responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. North Dakota Development Fund, Inc.'s response was not subjected to the 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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
November 5, 2024

**2024-001      Preparation of Financial Statements**  
**Material Weakness**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The North Dakota Development Fund, Inc. does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause: North Dakota Development Fund, Inc. does not have staff trained in reporting standards for the financial statements and notes to the financial statements.

Effect: Inadequate controls over financial reporting of the North Dakota Development Fund, Inc. result in the more than remote likelihood that the North Dakota Development Fund, Inc. would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: It is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the North Dakota Development Fund, Inc. and changes in reporting requirements.

Views of responsible officials: 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 Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund, Inc.

**2024-002      Material Proposed Audit Adjustments including Restatement  
Material Weakness**

Criteria: A good system of internal accounting control should provide for the proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Condition: We identified misstatements in North Dakota Development Fund, Inc.'s financial statements causing us to propose material audit adjustments including a restatement audit adjustment. A number of the adjustments were related to the Corporation's improper classification between loans and equity investments. In addition, there were errors with rolling beginning balances and the financial statements did not balance intra-fund.

Cause: The Organization does not have a document that details transactions outside of the typical day to day activities.

Effect: Misstatements in the financial statements could result from inadequate controls over recording of transactions and it affects the North Dakota Development Fund, Inc.'s ability to detect misstatements to the financial statements.

Recommendations: The organization should develop a document that details various transactions made by the organization and includes supporting documentation to enable staff the ability to easily understand how to properly account for those transactions.

Views of responsible officials: The organization accepts the recommendation of proposed audit adjustments. North Dakota Development Fund, Inc. plans to transition to a new ERP reporting system that will assist in remedying this deficiency.

**2024-003      Lack of Segregation of Duties  
Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: North Dakota Development Fund, Inc. has a lack of segregation of duties in certain areas due to a limited staff. There is no review or approval process over manual journal entries.

Cause: North Dakota Development Fund, Inc. has limited staff to be able to adequately segregate duties.

Effect: Inadequate segregation of duties could adversely affect the North Dakota Development Fund, Inc.'s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendations: All accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the North Dakota Development Fund, Inc. We recommend management institute a level of oversight and approval of all accounting functions.

Views of responsible officials: At this time, North Dakota Development Fund, Inc. has segregated the duties of all accounting functions in the most efficient manner possible given its limited staff. The Board is involved and is being kept informed of the financial management of North Dakota Development Fund, Inc.

**2024-004      Loan Interest Income Accounting and Reconciliation  
Material Weakness**

Criteria: Loans greater than 90 days past due should be placed on non-accrual which stops the recognition of interest income and increasing interest receivable. Loan interest receivable and interest income should be reconciled monthly from the loan system to the accounting system and reviewed and approved.

Condition: North Dakota Development Fund, Inc. is not utilizing their accounting system placing loans on non-accrual and not performing a reconciliation of interest income and interest receivable which resulted in material audit adjustments.

Cause: North Dakota Development Fund, Inc. does not have the training needed to utilize the accounting system appropriately for non-accrual loans or to reconcile interest income and interest receivable accurately.

Effect: Misstatements in the financial statements could result from inadequate controls over recording of transactions and it affects the North Dakota Development Fund, Inc.'s ability to detect misstatements to the financial statements.

Recommendations: The organization should obtain training and develop a document that details the accounting for non-accrual loans within the accounting system and reconciling loan interest income and interest receivable to enable staff the ability to easily understand how to properly account for those transactions.

Views of responsible officials: North Dakota Development Fund, Inc. plans to transition to a new ERP reporting system that will assist in remedying this deficiency.



**2024-005      Loan and Equity Investment Risk Rating Controls**  
**Material Weakness**

Criteria: When a borrower or investee has multiple lending or investment relationships with the Corporation, they should all be risk rated the same and the reserve adjusted accordingly. The reserve calculation should align with the risk rating the Corporation assigns to a lending or investment relationship during its credit reviews.

Condition: During our audit procedures, we identified instances of loan and investment relationships where a borrower or investee had multiple loan or investment relationships, and the Corporation did not risk rate them all the same which resulted in material audit adjustments to the reverse and provision for losses. During our audit procedures, we identified instances where the risk rating in the reserve calculation did not align with the risk rating assigned to a lending or investment relationship during its most recent credit review which resulted in material audit adjustments to the reserve and provision for losses.

Cause: North Dakota Development Fund, Inc. does not have a control process in place to ensure when there are multiple loan or investment relationships with a single borrower or investee, that the risk rating is applied similarly to all and adjusting the reserve and provision for losses accordingly. The Corporation does not have a control process in place to ensure that risk ratings assigned in the most recent credit reviews are updating the reserve calculation accurately which affects the reserve and provision for losses accordingly.

Effect: Misstatements in the financial statements could result from inadequate controls loan and investment risk ratings and it affects the North Dakota Development Fund, Inc.'s ability to detect misstatements to the financial statements.

Recommendations: The organization should implement a control function to ensure that the risk rating reserve calculation is reviewed at least monthly to ensure that borrowers and investee with multiple relationships are risk rated the same. The organization should implement a control function to ensure that the risk rating reserve calculation is automatically updated upon completion of a credit review for a borrower or investee.

Views of responsible officials: North Dakota Development Fund, Inc. plans to implement control processes to remedy this deficiency.