Performance Audit
July 1, 2019 – June 30, 2024

North Dakota Development Fund

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Independent Auditor's Report on Performance

North Dakota State Auditor's Office,

We were engaged by the North Dakota State Auditor's Office ("NDSAO") to conduct a performance audit of the North Dakota Development Fund, Inc. ("NDDF", "Fund", or "Development Fund") for the period beginning July 1, 2019, and ending June 30, 2024.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

NDDF's written response to the findings identified in our audit was not subject to the auditing procedures applied in the audit and, accordingly, we express no opinion on it.

Audit Purpose and Authority

The North Dakota Development Fund, Incorporated operates pursuant to Chapter 10-30.5 of the North Dakota Century Code ("N.D.C.C."), which establishes the legal authority governing the Development Fund and defines permissible uses of fund resources.[1] Section § 10-30.5-02 establishes the statutory framework against which NDDF operations were evaluated in this audit. This performance audit was conducted at the direction of the North Dakota Legislative Assembly and the NDSAO to assess the economy, efficiency, and effectiveness of NDDF's operations for the period July 1, 2019 through June 30, 2024. The audit evaluated whether NDDF administered its financing programs in a manner that was accessible, transparent, equitable, and consistent with its statutory authority, and whether the Fund managed financing decisions, portfolio performance, and financial risk in a manner that supported accountability and informed oversight.

Purpose of the Program

The purpose of the NDDF is to support economic development activities through flexible financing tools that are not otherwise readily available in the private market. NDDF operates as a gap financier, providing loans, equity investments, and other financing mechanisms intended to complement rather than replace private capital.

Authorized program activities include providing below market or subordinate financing, participating in equity investments, and supporting projects intended to stimulate private sector investment, promote job creation and retention, and strengthen the State's economic base.[2] NDDF primarily supports primary sector businesses that generate new wealth within the state through value added products, services, or processes.

Consistent with its statutory purpose, NDDF provides capital intended to support the development and expansion of business within North Dakota and advance primary sector economic development.

Background

NDDF is a statewide nonprofit development corporation and a component unit of the State of North Dakota within the Department of Commerce's Division of Economic Development and Finance. The Fund is governed by an eight member Board of Directors appointed by the Governor, with representation

[1] North Dakota Century Code Chapter §10-30.5 & §10-30.5 02.

[2] NDDF Investment Guidelines.

requirements defined in statute. The Board is responsible for oversight of the Fund, including approval of investment policies, authorization of financing decisions, and supervision of overall operations. Day to day management is delegated to the Chief Executive Officer, who is responsible for implementing Board policies, administering financing programs, and reporting financial and operational results to the Board.

Mission and Financing Approach

NDDF operates pursuant to N.D.C.C. Chapter 10-30.5, which authorizes the Fund to provide financing to support economic development within the state. NDDF provides financing through direct loans, participation loans, subordinated debt, convertible instruments, and equity investments based on the financing needs of each project.

NDDF functions as a gap financing source, providing funding that may not be otherwise available through traditional lending markets. During the audit period, NDDF utilized a range of financing structures, including direct loans, participation loans, subordinated debt, convertible instruments, and equity investments, depending on the characteristics of the project and financing needs.

NDDF primarily supports businesses classified as primary sector enterprises, which are defined in state law as businesses that add value to a product, service, or process and generate new wealth within the state. Financing activities are intended to support broader economic development objectives associated with these businesses.

Financing Programs and Operations

The Development Fund serves as NDDF's primary financing program and includes multiple financing structures, including the Advanced ND program, which supports larger scale financing up to $20 million. For purposes of this summary, Advanced ND activity is presented within the overall Development Fund to reflect how these programs are administered and reported within NDDF operations.

Other programs, including the Regional Rural Development Revolving Loan Fund and the Child Care Loan Program, support targeted economic development objectives such as rural business growth and workforce infrastructure. The Angel Match Program is funded through the federal State Small Business Credit Initiative (SSBCI) and is designed to match private investment in early stage primary sector businesses. Venture and Technology Financing address capital needs for businesses pursuing innovation, commercialization, and growth opportunities. This program represents a smaller share of total funding but plays a distinct role in supporting early stage capital formation.

Table A summarizes program-level activity during the audit period, including funding limits, number of transactions, and total funding amounts by program.

Table A: NDDF Program Activity by Funding Program, FY20–FY24

Loan Program[3] (Account Types)	Funding Limit	Number of Loans	Total Funded
Development Fund (DFEQ, DFLN, DFVL) – includes loan, equity, and Advanced ND program.	Up to $3,000,000 (Up to $20,000,000 for Advanced ND)	56	$65,360,775
Regional Rural Development Revolving Loan Fund (RFLN, RFVL)	Up to $3,000,000	8	$6,321,807
Child Care Loan Program (CHLD)	Up to $1,000,000[4]	44	$6,892,006
Angel Match Program (AMEQ, AMVL, AMSF) – includes loan, equity and Federal SSBCI-funded	Up to $250,000	16	$3,000,000
Venture and Technology Financing (NVLN)	Up to $3,000,000	2	$210,000
	Total	**126**	**$81,784,588**

Source: NDDF program materials and NDDF iCore subledgers for FY20 through FY24.

Financial Context and Portfolio Growth

NDDF's financial activity during the audit period reflected both continued deployment of financing and significant changes in the size and composition of the Fund's loan and investment portfolio. During FY20 through FY24, NDDF approved 126 loans and investments totaling approximately $81.8 million across its Development Fund, Regional Rural Development Revolving Loan Fund, Child Care Loan Program, Angel Match Program, and Venture and Technology Financing activities.

NDDF's gross loan portfolio increased during the audit period, with the most significant increase occurring in FY24. Gross loans receivable increased from approximately $29.1 million in FY20 to approximately $55.7 million in FY24, while equity increased from approximately $1.2 million to approximately $13.5 million over the same period. As a result, total gross portfolio balances increased from approximately $30.3 million in FY20 to approximately $69.2 million in FY24.

The financial context presented here is intended to frame the size, nature, and growth of NDDF's financing activity during the audit period. The findings that follow address the specific governance and control issues identified through audit procedures, including capital sustainability, conflict of interest controls, job outcome reporting, loss recognition, and application and approval documentation.

Objectives of the Audit

Our audit was limited to the objectives listed below, which include determining whether NDDF administered its financing programs in a manner that was accessible, transparent, equitable, economical, efficient, effective, and consistent with its statutory authority and mission. These objectives also included compliance with applicable performance requirements as referred to in the N.D.C.C., NDDF bylaws (where applicable), and NDDF's investment policy. Management is responsible for compliance with these requirements.

1. Determine if the NDDF's application, eligibility determinations, and review and approval processes were accessible, transparent, equitable, and consistently applied to support efficient and effective allocation of financing.
    a. Determine whether eligibility criteria were clearly defined, publicly available, and applied consistently during application screening.

[3] NDDF loan program information obtained from https://www.commerce.nd.gov/economic-development-finance/development-fund.

[4] The Child Care Loan Program funding limit increased from $100,000 to $1,000,000 in 2023 and was codified in N.D.C.C. Section § 10 30.5 04(5).

   b. Assess whether the review and approval process follows documented procedures, including timeliness, scoring or evaluation tools, conflict of interest safeguards, and decision-making protocols.
   c. Review how the NDDF documents its decisions and communicates them, including transparency around approvals, denials, and appeal options.

2. Determine if the NDDF provided flexible and effective financing in an economical and efficient manner, including an evaluation of loan and equity performance, write-offs, and the fund's ability to manage financial risk.
   a. Evaluate the extent and trends of loan defaults and write-offs over the audit period.
   b. Determine whether the risk tolerance used when financing for loan or equity positions is consistent with industry standards, including likelihood of success prior to funding commitments.
   c. Assess whether the NDDF has policies and procedures for monitoring loan and equity performance and mitigating risk. The monitoring should include:
      i. Evaluating whether jobs were created by providing the financing, and if so, how many.
      ii. Where potential jobs were created, including the sector and location.
      iii. The longevity of jobs created.
   d. Determine whether write-offs were:
      i. Within acceptable levels for the types of businesses financed.
      ii. Consistent with similar economic development funds in other states.
      iii. Aligned with NDDF risk tolerance and portfolio goals.
   e. Examine the policies, protocols, and decision variables when transitioning between equity and loan positions, and vice versa.
   f. Evaluate impairment calculations for best practices, policies, and procedures on the loan and equity portfolios.
   g. Examine how loan losses impact the overall sustainability of the fund and its ability to recycle capital into new projects.

Scope of the Audit

The scope of the performance audit covered the period of July 1, 2019 through June 30, 2024.

During the audit period, NDDF administered multiple financing programs designed to support economic development objectives established in N.D.C.C. As such, the scope of this audit included financing activity associated with the following programs.

- Development Fund Program
- Advanced North Dakota Fund
- Regional Rural Revolving Loan Fund
- Child Care Loan Program
- Angel Match Program
- State Small Business Credit Initiative programs
- Venture and Technology related financing programs

In planning and performing this performance audit, we obtained an understanding of NDDF's internal control relevant to the audit objectives for the purpose of designing audit procedures and obtaining sufficient, appropriate evidence. Our procedures were not designed to provide an opinion on the effectiveness of NDDF's internal control. Accordingly, we do not express such an opinion, and the audit should not be relied upon as an assessment of NDDF's overall internal control system. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Methodology

We designed and performed audit procedures to address each audit objective and obtain sufficient, appropriate evidence to support the findings and conclusions in this report. Procedures included a combination of detailed testing, data analysis, and benchmarking.

Audit testing included review of loan and equity transactions, charge-off activity, delinquency trends, risk ratings, reserve practices, and borrower-reported performance data across fiscal years 2020 through 2024. Samples were selected to represent a cross-section of transaction size, program type, risk characteristics, and lifecycle stage.

In addition to transaction-level testing, we performed portfolio-level analyses to evaluate trends in delinquency, charge-offs, impairment, reserve coverage, and capital deployment. These analyses were used to assess portfolio performance, loss experience, and the Fund's ability to continue recycling capital into new projects over time.

Benchmarking procedures were performed using survey responses, targeted outreach, and publicly available information from comparable development finance and public purpose lending entities. Benchmarking was used to provide context for governance practices, transparency, and consistency, and was not used to evaluate individual transactions or program outcomes. A more detailed summary of benchmarking methodology and results is provided in the **Appendix**.

Detailed descriptions of specific testing procedures, population definitions, and sample sizes are incorporated within the relevant sections of the report to support each finding.

Conclusions by Audit Objective

OBJECTIVE 1

Determine if NDDF's application, eligibility determinations, and review and approval processes were accessible, transparent, equitable, and consistently applied to support efficient and effective allocation of financing.

NDDF did not fully demonstrate that application, eligibility, review, approval, documentation, denial, and reconsideration processes were consistently applied during the review period. Testing identified documentation exceptions in 25 of 40 transactions, or 62.5%, with the sampled transactions representing approximately $61.4 million, or 75% of the transaction population by dollar value. These exceptions limited the ability to verify the basis for funding decisions and whether required reviews and approvals occurred.

1.a – Determine whether eligibility criteria were clearly defined, publicly available, and applied consistently during application screening.

NDDF maintained program and policy information related to eligibility, but transaction files did not consistently retain the necessary documentation needed to show how eligibility criteria were applied to specific applications. Testing identified missing or incomplete applications, credit or investment memos in 13 of 40 transactions, and insufficient support for refinances and reevaluations in 6 of 40 for approximately $4.4 million and $2.4 million respectively. As a result, NDDF did not fully demonstrate that eligibility criteria were consistently applied and documented during application screening. Eligibility criteria and application information are publicly available through NDDF and Commerce websites.

1b – Assess whether the review and approval process follows documented procedures, including timeliness, scoring or evaluation tools, conflict of interest safeguards, and decision making protocols.

NDDF did not retain sufficient records to support compliance with review, approval, and delegated authority, Board ratification, and conflict of interest procedures. Testing 40 of 126 loan and equity funding transactions identified incomplete Board ratification support for 13 delegated authority transactions, missing or insufficient Board approval documentation for 11 transactions requiring Board review or approval, and incomplete support for when review and approval activities occurred in 16 of 40 applications.

Board conflict disclosures records were not retained for FY20 or FY21, only one form was retained for FY22, and NDDF could not provide evidence that conflict disclosures were evaluated against existing or proposed financing decisions, including five entities associated with two Board members that received approximately $3.96 million in funding during the review period.

1c – Review how NDDF documents its decisions and communicates them, including transparency around approvals, denials, and appeal options.

NDDF did not maintain sufficient records to support approval decisions, denial decisions, applicant next steps, or reconsideration practices. NDDF also lacked a formal process for tracking denials and documenting appeals or reconsideration requests.

Overall Conclusion for Objective 1

NDDF did not fully demonstrate that its application, eligibility, review, approval, conflict of interest, denial, and reconsideration processes were consistently applied and sufficiently documented to support transparent, equitable, efficient, and effective allocation of financing.

See **Finding #2** related to strengthening conflict of interest controls, including the identification, evaluation, documentation, and monitoring of related party relationships and transactions, and **Finding #4** related to improving application processing standards, approval documentation, record retention, and denial and appeals practices.

OBJECTIVE 2

Determine if NDDF provided flexible and effective financing in an economical and efficient manner, including an evaluation of loan and equity performance, write offs, and the Fund's ability to manage financial risk.

NDDF did not maintain sufficient documented criteria, procedures, analysis, or supporting records to show how portfolio management decisions were consistently evaluated, supported, and reported during the review period. This included documentation related to portfolio monitoring, risk rating support, reserves methodology, impairment evaluation, loss recognition, job outcome reporting, nontraditional financing instruments, and future lending capacity.

2a – Evaluate the extent and trends of loan defaults and write offs over the audit period.

NDDF recorded 25 charge-offs totaling approximately $3.34 million during FY20 through FY24. Charge-offs were concentrated in FY23, when 17 of 25 charge-offs occurred and accounted for approximately $2.61 million of the total charge-off amount. Testing identified limited or unavailable support for 2 of 5 sampled charge-offs, including support for delinquency history, monitoring activity, recovery efforts, approval, and timing rationale.

2b – Determine whether the risk tolerance used when financing loan or equity positions is consistent with industry standards, including likelihood of success prior to funding commitments.

NDDF used risk ratings and reserve levels for loans and equity positions, but documentation lacked the criteria or analysis supporting higher risk financing decisions (missing documents). The FY20 through FY24 approval population included 126 loan and equity accounts totaling approximately $81.8 million, of which 102 accounts, or 81%, carried risk ratings associated with reserve levels of 25% or greater (risk rating 4, 5 or 6).

2c – Assess whether NDDF has policies and procedures for monitoring loan and equity performance and mitigating risk. The monitoring should include evaluating whether jobs were created by the financing, where potential jobs were created, including sector and location, and the longevity of jobs created.

NDDF did not maintain sufficient documented procedures or support to show how delinquent, higher risk, impaired, or otherwise deteriorating accounts were consistently reassessed, escalated, evaluated for reserve adequacy, reviewed for impairment, or considered for nonaccrual treatment. NDDF also relied on borrower reported job data to track and report job outcomes but did not independently verify reported jobs using payroll records, tax filings, workforce data, or other supporting evidence.

2d – Determine whether write offs were within acceptable levels for the types of businesses financed, consistent with similar economic development funds in other states, and aligned with NDDF risk tolerance and portfolio goals.

NDDF lacked documented criteria for evaluating deteriorating loans and investments, including when to reassess risk, evaluate impairment, modify reserves, pursue recovery efforts, recognize losses, and assess charge-offs in relation to risk tolerance and portfolio objectives. NDDF also could not provide evidence of how charge-off decisions were evaluated, approved, or assessed in relation to the Fund's risk tolerance, portfolio objectives, and future lending capacity.

2e – Examine the policies, protocols, and decision variables when transitioning between equity and loan positions, and vice versa.

NDDF did not have a formally approved policy or documented procedure over convertible notes, loan to equity conversions, or other transitions between loan and equity positions.

2f – Evaluate impairment calculations for best practices, policies, and procedures on the loan and equity portfolios.

NDDF used a risk rating based approach to estimate reserves and evaluate impairment, but lacked documented criteria explaining how risk ratings, borrower performance, delinquency trends, impairment indicators, and other factors were evaluated when determining reserves, impairments, and valuation adjustments.

2g – Examine how loan losses impact the overall sustainability of the Fund and its ability to recycle capital into new projects.

NDDF's ability to fund new projects depends on repayments, recoveries, portfolio performance, available reserves, and available capital, and external appropriations or transfers. During FY20 through FY24, allowance balances ranged from 44% to 72% of gross loans and investments, provision for losses exceeded operating revenue in FY20, FY21, FY22, and FY24, and NDDF received significant external appropriations and transfers, including approximately $95 million in FY24.

Overall Conclusion for Objective 2

NDDF did not fully demonstrate that financing activity, portfolio monitoring, risk assessment, reserve methodology, impairment evaluation, loss recognition, job outcome reporting, and capital sustainability were supported by sufficiently documented policies, procedures, criteria, analysis, and supporting records during the review period.

See **Findings #1** related to strengthening portfolio monitoring, risk ratings, reserve methodology, loss recognition, nontraditional financing instruments, and capital sustainability analysis and **Finding #3** related to verifying borrower reported job data used to demonstrate program results.

Eide Bailly LLP

Ontario, California
July 31, 2026

Finding 1 and Recommendations

NDDF Should Strengthen Portfolio Monitoring, Risk Ratings, Reserve Methodology, Loss Recognition, Nontraditional Financing Instruments, and Capital Sustainability Analysis

Condition

Because NDDF operates as a mission-driven economic development fund, this finding does not conclude that reliance on external appropriations or transfers is improper. Rather, the issue is that NDDF did not document analysis sufficient to distinguish capacity generated through repayments, recoveries, and portfolio performance from capacity created through new external funding. Additionally, NDDF's statutory mission includes flexible financing that may involve elevated risk, this finding does not conclude that higher-risk lending, equity investments, or nontraditional financing instruments are inappropriate. Rather, higher-risk activity increases the need for documented risk tolerance, reserve methodology, monitoring, escalation, loss recognition, and Board reporting.

NDDF lacked sufficiently documented criteria, procedures, analyses, or supporting records to show how portfolio risks, risk ratings, reserve requirements, loss exposure, repayments, recoveries, external funding, and future lending capacity were evaluated during the review period. As a result, NDDF could not demonstrate that key portfolio decisions were consistently supported, documented, reported, and considered when evaluating the Fund's ability to recycle capital into future projects.

Capital Sustainability and Future Lending Capacity

NDDF operates as a revolving financing entity. Under this structure, loan repayments, recoveries, interest, dividends, and other receipts can provide capital for future lending and investment activity. NDDF could not provide documented analysis showing whether future lending capacity was supported by portfolio generated resources or depended on state appropriations and transfers.

Financial and portfolio results show that reserve levels, provision expense, charge-offs, delinquency trends, higher risk ratings, and capital deployment affected the amount of capital expected to be available for future projects. These factors should be evaluated together because portfolio growth does not necessarily mean the same amount of capital is recoverable or available for future lending.

Table B shows the relationship between gross portfolio growth, allowance balances, and net recoverable portfolio value. NDDF's gross loan receivable and equity increased from $37.5 million in FY23 to $69.2 million in FY24. Net loans receivable and equity also increased, from $15.9 million to $38.8 million during the same period. However, the allowance for loan and equity losses also increased from $21.6 million to $30.3 million.

Although the allowance percentage declined from 58% in FY23 to 44% in FY24, the FY24 allowance balance remained substantial at approximately $30.3 million. As a result, a significant portion of the gross portfolio balance was not expected to be recoverable and available for future recycling through the revolving fund structure.

Table B: Loan & Equity Portfolio and Reserve Position, FY20–FY24

Metric	FY20	FY21	FY22	FY23	FY24
Gross Loan Receivable & Equity	$30.3M	$30.4M	$33.2M	$37.5M	$69.2M
Allowance for Loan & Equity Losses	($19M)	($19.7M)	($23.8M)	($21.6M)	($30.3M)
Net Loans Receivable & Equity	$11.3M	$10.6M	$9.4M	$15.9M	$38.8M
Allowance as % of Gross	63%	65%	72%	58%	44%

Source: NDDF audited financial statements for FY20 through FY24.

Reserve Exposure from New Loan and Equity Investments

Table C shows that a significant portion of approved activity during FY20 through FY24 carried risk ratings associated with required reserves. Of the 126 approved accounts, 102 were rated 4, 5, or 6. These ratings carried reserve levels of 25%, 50%, or 100%, respectively. The 102 accounts had total contract amounts of approximately $69.7 million and related reserves of approximately $30.1 million.

The reserve impact was most significant in FY24, when higher risk approvals totaled approximately $44.9 million and related reserves totaled approximately $13.2 million, including an $8.0 million reserve on one $32.0 million loan.

Table C: Approved Loans and Equity Positions Rated 4, 5, or 6 and Related Reserve, FY20–FY24

Fiscal Year	Number of Accounts	Contract Amount	Reserve Amount	Reserve as % of Contract Amount	Risk Rating 4 Accounts	Risk Rating 5 Accounts	Risk Rating 6 Accounts
FY20	38	$4,432,699	$2,932,700	66.20%	9	18	11
FY21	14	$2,775,705	$1,732,080	62.40%	4	4	6
FY22	13	$9,764,855	$7,139,855	73.10%	2	0	11
FY23	22	$7,786,584	$5,050,334	64.90%	4	5	13
FY24	15	$44,915,000	$13,215,000	29.40%	4	2	9
Total	**102**	**$69,674,842**	**$30,069,968**	**43.16%**	**23**	**29**	**50**

Source: NDDF iCore loan ledgers for FY20 through FY24.

Provision Expense and Earnings Capacity

Provision for losses exceeded operating revenue in FY20, FY21, FY22, and FY24. **Table D** shows provision for losses representing approximately 791% of operating revenue in FY20 and 695% in FY24, respectively. Expressed as a dollar relationship, NDDF recorded approximately $7.91 in provision expense for each $1 of operating revenue in FY20 and approximately $6.95 in provision expense for each $1 of operating revenue in FY24.

Table D: Loss and Earnings Capacity, FY20–FY24

Metric	FY20	FY21	FY22	FY23	FY24	Total FY20-24
Operating revenue	$0.9M	$0.9M	$1.7M	$1.3M	$1.2M	**$6.0M**
Provision for losses	$7.1M	$1.1M	$4.0M	$0.4M	$8.8M	**$21.4M**
Provision as % of operating revenue	791%	112%	235%	31%	695%	**357%**

Source: NDDF audited financial statements for FY20 through FY24.

Provision expense is driven largely by reserve requirements, loan and equity performance, and new funding activity. As loans and investments were originated or reassessed at elevated risk levels, NDDF recognized additional allowance balances and provision expense to reflect expected losses. When provision expense significantly exceeds operating revenue, expected losses are being recognized faster than income is being generated from lending and investment activity. This reduces internally generated capital available for recycling or for making additional investments without ongoing State appropriation or transfers.

Operating Results and External Capital Support

As shown in **Table E**, NDDF reported operating losses in 4 of the 5 fiscal years. However, changes in net position increased in FY20, FY23, and FY24 when state appropriations and transfers were significant. In FY24, NDDF reported an operating loss of approximately $8.3 million, while state appropriations and transfers totaled approximately $95 million and change in net position increased by approximately $87.5 million.

These results show that increases in financial capacity during certain years were significantly influenced by appropriations and transfers rather than operating performance alone. This distinction matters for readers because operating results, appropriations, transfers, reserve activity, and portfolio recoveries each affect how much capital is available to support future lending and investment activity.

Table E: Operating Results and External Capital Support, FY20–FY24

Metric	FY20	FY21	FY22	FY23	FY24
State Appropriations	$15M	$0	$0.1M	$8.3M	$95M
Operating Income (Loss)	($6.6M)	($0.4M)	($2.8M)	$0.2M	($8.3M)
Change in Net Position	$8.4M	($0.4M)	($2.7M)	$8.6M	$87.5M

Source: NDDF audited financial statements for fiscal years 2020 through 2024.

Portfolio Cash Generation and Capital Deployment

In addition to the allowance, provision expense, and operating result trends shown above, cash flow activity provides further context for evaluating NDDF's revolving fund structure. A revolving fund is generally expected to use repayments, recoveries, interest, dividends, and other receipts to support future financing activity. Therefore, cash flow information is relevant to understanding whether continued lending and investment activity was supported by portfolio generated cash inflows or by external capital support.

As shown in **Table F**, portfolio generated cash inflows did not consistently cover new loans and equity purchases during FY20 through FY24. In FY24, NDDF generated approximately $3.9 million from interest, dividends, and loan payment collections while deploying approximately $34.0 million through new loans and equity purchases. This resulted in approximately $30.0 million portfolio cash shortfall before external appropriations.

Table F: Portfolio Cash Generation and Capital Deployment Analysis, FY20–FY24

Metric	FY20	FY21	FY22	FY23	FY24
Total portfolio generated cash inflows[5]	$4.1M	$5.8M	$8.5M	$7.7M	$3.9M
Total new capital deployed[6]	$(11.5M)	$(5.4M)	$(9.9M)	$(13.3M)	$(33.9M)
Portfolio generated cash surplus or shortfall before external appropriations[7]	$(7.5M)	$0.4M	$(1.4M)	$(5.6M)	$(30M)

Source: NDDF audited financial statements for fiscal years 2020 through 2024.

The cash flow analysis shows the relationship between capital returned from the portfolio and capital deployed into new activity. While NDDF continued to fund loans and investments, significant provision expense, allowance balances, and portfolio cash shortfalls affected the Fund's ability to sustain new financing activity solely through repayments, recoveries, and internally generated resources. If expected losses materialize, the Fund's ability to recycle capital into future projects may depend more heavily on future state appropriations and transfers.

This does not mean NDDF was unable to continue lending or investing. Rather, NDDF lacked documented analysis that would allow management and the Board to evaluate the long- term sustainability of the revolving fund structure, understand how expected losses affected recyclable capital, and determine the degree to which future lending capacity depended on repayments, recoveries, portfolio performance, internally generated capital, or external funding sources.

[5] Total portfolio generated cash inflows consist of interest and dividend receipts and loan payment collections.

[6] Total new capital deployed consists of new loans issued and equity investments purchased.

[7] Portfolio generated cash surplus or shortfall before external appropriations is calculated as total portfolio generated cash inflows less total new capital deployed.

Collectively, the analyses show that portfolio cash inflows from repayments, interest, dividends, and other receipts did not consistently keep pace with new lending and investment activity. At the same time, allowance balances and provision expense reduced the amount of capital expected to be recovered from portions of the portfolio, while external appropriations and transfers contributed materially to lending capacity in certain years.

Taken together, **Tables B, C, D, E and F** show that NDDF experienced significant portfolio reserve levels, recurring provision expense, recurring operating losses, and periods in which new lending and equity deployment exceeded portfolio generated cash inflows. The tables also show that increases in net position, cash balances, and lending capacity were significantly influenced by external appropriations and transfers in certain years. While the Fund continued to originate and service loans and investments throughout the audit period, NDDF did not perform or document analysis demonstrating whether future lending capacity was being sustained primarily through repayments, recoveries, portfolio performance, and internally generated capital, or through additional external appropriations and transfers.

Portfolio Monitoring and Delinquency

NDDF maintained delinquency information through year-end loan ledgers and delinquent loan aging reports. NDDF's investment policy also described certain monitoring expectations, including monthly review of delinquency reports, consideration of nonaccrual treatment for accounts 90 days past due, meetings with delinquent borrowers when appropriate, quarterly Board review of substandard and nonperforming investments, and documentation of actions taken or proposed in investment files.

However, NDDF lacked sufficient documentation to demonstrate how these expectations were consistently applied. Specifically, documentation was not sufficient to show when delinquent or higher risk accounts were reassessed, escalated, evaluated for reserve adequacy, reviewed for impairment, considered for nonaccrual treatment, or reported to the Board. As a result, NDDF could not demonstrate that similar delinquency or risk conditions were monitored, documented, and escalated consistently.

As shown in **Table G**, delinquent accounts were concentrated in accounts that were greater than 90 days past due for the review period. In FY20, 40 of 58 delinquent accounts or approximately 70% were 90 days or more past due, totaling approximately $4.47 million, with 6 accounts totaling approximately $0.23 million aged more than 2 years. In FY22, 46 of the 51 delinquent accounts or approximately 90% were 90 days or more past due, totally approximately $5.66 million, with 6 accounts totaling approximately $0.73 million aged more than 2 years. By FY24, all 37 delinquent accounts identified in the delinquency report were more than 90 days delinquent, totaling approximately $6.67 million and 19 accounts aged more than 2 years.

The aging profile also shows that prolonged delinquency became more prominent in later years. In FY23, 20 accounts totaling approximately $2.14 million were aged more than one year. In FY24, 29 accounts totaling approximately $3.4 million aged more than one year, including 19 accounts totaling approximately $1.99 million aged 731 to 999 days. The 999 day category reflects the maximum aging shown in NDDF's delinquency aging reports due to system functionality.

Table G: Delinquent Account Aging Category, FY20–FY24

Fiscal Year	1 to 29 Days		30 to 59 Days		60 to 89 Days		90 to 365 Days		366 to 730 Days		731 to 999 Days		Total	
	#	$	#	$	#	$	#	$	#	$	#	$	#	$
FY20	6	$0.59M	7	$0.91M	5	$1.91M	33	$4.17M	1	$0.07M	6	$0.23M	58	$7.88M
FY21	5	$1.64M	10	$0.87M	2	$0.19M	12	$1.30M	2	$0.28M	-	-	31	$4.28M
FY22	-	-	3	$0.67M	2	$0.19M	36	$4.46M	4	$0.47M	6	$0.73M	51	$6.52M
FY23	4	$0.54M	2	$0.03M	2	$0.07M	6	$0.89M	12	$0.63M	8	$1.51M	34	$3.67M
FY24	-	-	-	-	-	-	8	$3.27M	10	$1.42M	19	$1.98M	37	$6.67M

Source: NDDF iCore delinquency reports FY20 through FY24.

Risk Ratings and Reserve Methodology

NDDF assigned risk ratings to loans and equity positions and used those ratings to determine reserve levels. However, NDDF had not established defined criteria distinguishing risk ratings 4, 5, and 6, resulting in risk rating assignments and corresponding reserve levels being substantially based on judgment. Testing included a sample of 40 loan and equity positions selected from a population of 307 active loan and equity positions. Additionally, testing included a sample of 40 approved loans and equity positions selected from a population of 126 approved transactions during the timeframe in review. Testing identified 4 exceptions out of 80 samples tested, or 5%, where support for risk rating determinations was not maintained. In these instances, available documentation was insufficient to show how assigned risk ratings were supported by factors such as borrower performance, financial condition, collateral position, expected repayment sources, or other relevant portfolio risk indicators.

Because reserve levels were directly tied to risk ratings, incomplete support for risk rating determinations also affected NDDF’s ability to demonstrate how reserve conclusions were determined, reviewed, and applied over time.

Risk Rating Reserve Levels

As shown in **Table H**, NDDF’s reserve approach assigned reserve levels of 25%, 50%, and 100% to risk ratings 4, 5, and 6, respectively. Of the 126 loan and equity accounts approved during FY20 through FY24, totaling approximately $81.8 million, 102 accounts, or 81% were assigned risk ratings requiring reserves of 25% or greater. In addition, NDDF maintained limited documentation to demonstrate how account specific factors, such as repayment capacity, collateral, payment history, financial condition, or other factors supported the assigned risk rating and related reserve level.

Table H: NDDF Risk Rating and Associated Reserve Levels for Approved Loans & Equity, FY20–FY24

Risk Rating	Risk Classification	Expected Reserve Level	Number of Loans and Equity	% of Portfolio (Count)	Total Contract Amount
3	Lowest risk	No Reserve	24	19%	$12,109,746
4	Elevated risk	25% Reserve	23	18%	$46,843,682
5	High risk	50% Reserve	29	23%	$8,944,226
6	Highest risk	100% Reserve	50	40%	$13,886,934
		Total	**126**	**100%**	**$81,784,588**

Source: NDDF approved loans and equity positions and reserve methodology based on risk rating.

Concentration of Higher Risk Ratings

The concentration of higher risk ratings by program group further demonstrates the need for documented risk rating and reserve methodology. As summarized in **Table I**, 79 of 126 accounts, or approximately 63%, carried a risk rating of 5 or 6. Higher risk ratings were concentrated in certain program groups. Development Fund accounts represented 39 of the 79 accounts rated 5 or 6, or approximately 49% of all higher risk accounts identified in the analysis. Angel Match and New Venture each had 100% of accounts rated 5 or 6, although those program groups had smaller number of accounts. Child Care had 19 accounts rated 5 or 6, representing 43% of that program group and 24% of all higher risk accounts.

The concentration of higher risk ratings across multiple programs increases the need for clear documentation showing how ratings were assigned, reassessed, supported, and connected to related reserve levels. Without sufficient documentation supporting the basis for rating decisions and reserve conclusions, NDDF could not show that higher risk ratings and associated reserves were applied consistently across financing programs or that management and the Board had sufficient information to evaluate related reserve exposure.

Table I: Concentration of Approved Loans & Equity Risk Ratings by Financing Program, FY20–FY24

	Risk Rating							
Program Group	**3**	**4**	**5**	**6**	**Total Accounts**	**Accounts Rated 5 or 6**	**Percent Rated 5 or 6**	**Percent of All Higher Risk Accounts**
Angel Match	0	0	0	16	16	16	100%	20%
Development Fund	7	10	13	26	56	39	70%	49%
New Venture	0	0	2	0	2	2	100%	3%
Child Care	15	10	13	6	44	19	43%	24%
Regional Rural Development Revolving	2	3	1	2	8	3	38%	4%
Total	**24**	**23**	**29**	**50**	**126**	**79**	**63%**	**100%**

Source: NDDF loan activity listing and iCore risk rating data.

Higher-Risk or Loss Status

To provide additional perspective on the FY20 through FY24 approval population, we reviewed the current status of the 126 loans and equity-type transactions. As shown in **Table J**, 14 accounts were identified as nonaccrual and 8 accounts had been charged-off, indicating that 22 of the 126 approved transactions had moved into higher risk or loss categories. These accounts represented approximately $5.2 million in total original contract amount.

Nonaccrual and charge off status reflect repayment concerns or realized loss recognition and should be supported by clear criteria, documented analysis, and traceable approval decisions. The number of accounts in these categories reinforces the need for documented expectations for monitoring deterioration, evaluating reserve adequacy, recognizing impairment, and reporting material portfolio developments.

Table J: Status of Loan & Equity Transactions Approved During FY20–FY24

Current Account Status & Description	Number of Loans	Total Original Contract Amount
Normal / Blank, active / current	66	$72.29 million
Closed (CLD), closed paid or refinance	38	$4.30 million
Nonaccrual (NACC), interest no longer recognized due to repayment concerns	14	$4.32 million
Charged-Off (CHOF), loan charged-off as uncollectible	8	$0.87 million
Total	**126**	**$81.78 million**

Source: *NDDF iCore subledgers for FY20 through FY24.*

Analysis of Paid Accounts

Based on the NDDF closed account file, 131 accounts were closed during the review period. Of these, 34 accounts were refinanced and excluded from this analysis, leaving 97 accounts that were paid in full. These 97 accounts had a total contract amount of approximately $15.2 million and generated approximately $2.1 million in life to date interest, resulting in a combined total of approximately $17.2 million in principal and interest payments. The paid accounts consisted primarily of 83 loan-related accounts, including DFLN, CHLD, NVLN, and RFLN account types, as well as 14 equity or equity type accounts.[8]

Impairment, Valuation Adjustments, and Charge-Off Recognition

NDDF recognizes portfolio losses through multiple mechanisms, including loan and investment allowances, valuation adjustments, and charge-offs. However, NDDF had not established sufficiently documented criteria, decision triggers, or support showing when deteriorating accounts should move from ongoing monitoring and reserve evaluation to impairment recognition, valuation adjustment, recovery action, or final charge-off.

During FY20 through FY24, NDDF recorded 25 charge-offs totaling approximately $3.34 million, including 16 loan instruments totaling approximately $1.65 million and 9 equity or equity-type instruments totaling approximately $1.69 million. Testing of 5 charge off transactions identified 2 transactions, or 40%, with limited or unavailable support describing the basis for the charge-off decision, including delinquency history, monitoring activities, recovery efforts, approvals, and timing rationale.

As shown in **Table K**, charge-offs were concentrated in FY23, when 17 of the 25 charge-offs occurred and accounted for approximately $2.61 million of total charge-off activity. The FY23 charge-offs included 6 equity charge-offs totaling approximately $1.34 million and 11 loan charge-offs totaling approximately $1.27 million.

Table K also shows that charge-offs represented a substantial portion of the original contract amounts associated with the charged-off accounts. Total charge-offs represented approximately 84% of related total contract amounts. Equity charge-offs represented approximately 95% of related equity contract amounts, while loan charge-offs represented approximately 75% of related loan contract amounts. These percentages show that the charge-offs generally involved a substantial portion of the original amounts associated with those accounts.

[8] DFLN, CHLD, NVLN, and RFLN: Development Fund Loan, Child Care Loan, New Venture Loan, and Regional Fund Loan respectively.

The origination ranges further show that many charged-off accounts had been outstanding for extended periods before final charge-off. Equity charge-offs related to accounts originated from FY07 through FY12, while loan charge-offs related to accounts originated from FY05 through FY20. Accounts charged-off during the review period had been outstanding for an average of approximately 9.1 years from origination to charge-off.

The concentration of charge-offs in FY23, the high percentage of original contract amounts charged-off, and the age of many charged-off accounts increased the need for documentation showing how NDDF evaluated impairment recognition, valuation adjustments, reserve changes, recovery activity, or final charge-off. Without clear criteria and supporting records, NDDF could not show that similarly situated accounts were evaluated and charged-off consistently.

Table K: Characteristics of Charged-Offs for Loans and Equity Positions, FY20–FY24

Description	FY20	FY21	FY22	FY23	FY24	Total
Equity charge-offs, number	2	0	1	6	0	9
Equity charge-off amounts	$316,796	$0	$34,792	$1.34M	$0	$1.69M
Equity total contract amounts	$333,336	$0	$100,000	$1.34M	$0	$1.77M
Equity charge-off as % of total contract	95%	N/A	35%	100%	N/A	95%
Equity origination year range	FY12	N/A	FY09	FY07-09	N/A	FY07-12
Loan charge-offs, number	2	2	0	11	1	16
Loan charge-off amounts	$111,627	$120,444	$0	$1.27M	$150,000	$1.65M
Loan total contract amounts	$150,000	$250,000	$0	$1.66M	$150,000	$2.21M
Loan charge-off as % of total contract	74%	48%	N/A	77%	100%	75%
Loan origination year range	FY05 & FY20	FY14 & FY20	N/A	FY10-20	FY20	FY05-20
Total charge-offs, number	**4**	**2**	**1**	**17**	**1**	**25**
Total charge-off amounts	**$428,422**	**$120,444**	**$34,792**	**$2.61M**	**$150,000**	**$3.34M**
Total contract amounts	**$483,336**	**$250,000**	**$100,000**	**$3.00M**	**$150,000**	**$3.98M**
Total charge-offs as % of total contract	**89%**	**48%**	**35%**	**87%**	**100%**	**84%**

Source: NDDF's charge-off listing from FY20 – FY24.

Risk Tolerance and Likelihood of Success at Origination

NDDF assigned risk ratings to loans and equity positions and used those ratings to determine reserve levels. NDDF's reserve methodology assigns expected reserve levels of 25%, 50%, and 100% to risk ratings 4, 5, and 6, respectively, which can result in significant reserve recognition at or near the time of funding. However, NDDF did not maintain documented risk tolerance criteria showing how higher risk financing decisions were evaluated in relation to likelihood of success, acceptable risk, mission alignment, reserve implications, portfolio mix, and future lending capacity.

A documented risk tolerance process would be expected to identify how much exposure NDDF is willing to accept at each risk level, including whether dollar thresholds, concentration guidelines, enhanced approval requirements, or additional monitoring expectations apply to transactions rated 4, 5, or 6. This type of process would not prevent NDDF from making higher risk, mission driven investments. Rather, it would help demonstrate that higher risk financing decisions were intentional, supported, and evaluated in relation to expected public benefit, potential financial loss, reserve impact, and the Fund's ability to continue recycling capital into future projects.

As a result, the linkage between underwriting conclusions, likelihood of success, acceptable risk, reserve impact, and future lending capacity was not always clearly demonstrated. Elevated reserve levels at origination reduce the amount of capital expected to be recovered and should be considered when approving large, higher risk, or mission driven transactions.

Nontraditional Financing Instruments

NDDF did not have a formally approved policy governing convertible notes or loan-to-equity conversions. During the audit period, NDDF completed 3 loan-to-equity conversions representing approximately $365,000 in total balance and approximately $324,000 in associated reserves, including 2 transactions involving convertible notes.[9]

Convertible notes, loan to equity conversions, restructurings, and valuation sensitive investments require clear decision criteria, approval expectations, valuation considerations, reserve analysis, and monitoring requirements. Without documented requirements, NDDF could not show that these decisions were consistently supported, approved, and monitored.

Criteria

N.D.C.C. § 10-30.5 10 establishes NDDF as a revolving fund and provides that money transferred into the Fund, interest on Fund money, and payments to the Fund are appropriated for the purposes of Chapter 10-30.5. N.D.C.C. § 10-30.5 05 establishes management and Board responsibility for NDDF investments, contracts, partnerships, limited liability companies, and business transactions. N.D.C.C. § 10-30.5 09 requires NDDF to publish an annual report that includes audited financial statements, the Board approved investment strategy and workplan, annual investments, and estimated jobs created and preserved.

Management is responsible for establishing and maintaining internal controls and governance processes necessary to support informed decision making, portfolio risk oversight, and timely loss recognition. Effective internal control and portfolio governance includes documented expectations for risk identification, monitoring, reassessment, impairment evaluation, reserve methodology, valuation adjustments, recovery activities, charge-off decisions, Board oversight, capital deployment, and analysis of future lending capacity.

Standards for Internal Control in the Federal Government (Green Book), Principle 13, Quality Information, provides that management should use relevant, reliable information to support decision making. This includes maintaining documentation sufficient to support significant judgments involving portfolio performance, impairment recognition, reserve adequacy, valuation adjustments, recovery activities, and charge-off decisions, capital deployment, and future lending capacity.

Cause

NDDF had not established a documented process requiring management to evaluate and report on how portfolio performance, expected losses, repayments, recoveries, reserve levels, capital deployment, and external appropriations affect future lending capacity.

NDDF's portfolio management practices evolved as the portfolio expanded, financing structures became more varied, and various accounts remained unresolved for extended periods as higher risk transactions increased. However, governance expectations, monitoring standards, reserve methodology, impairment criteria, escalation thresholds, charge-off triggers, documentation requirements, retention practices, and capital sustainability analysis were not formalized into a documented process or framework. As a result, portfolio risk monitoring and related decisions relied heavily on judgment and management experience rather than a consistently documented methodology.

[9] Convertible notes are financing instruments that begin as debt and may convert into equity if predefined conditions in the agreement are met. For transactions with automatic conversion features, the conversion terms are generally established in the original agreement and considered as part of the Board's initial approval of the instrument.

Effect or Potential Effect
Without sufficiently documented portfolio monitoring, risk rating, reserve, impairment, loss recognition, and sustainability analysis, NDDF cannot demonstrate that portfolio risks were identified, evaluated, reassessed, reserved, impaired, charged-off, reported, and considered consistently over time.

This increases the risk that similar loans or investments may receive different monitoring actions, risk ratings, reserve conclusions, impairment determinations, valuation adjustments, or charge-off decisions without clear documentation supporting the difference. It also reduces transparency over how deterioration is identified, how losses are recognized, and how significant portfolio judgements affect financial reporting, and how expected losses, repayments, recoveries, and external appropriations affect capital recycling and future lending capacity.

For readers, this distinction is important because gross portfolio growth, increased net position, or continued lending activity may not, by themselves, demonstrate sustainable revolving fund capacity if those results are materially affected by reserve exposure, expected losses, or external appropriations and transfers.

Recommendation
NDDF should establish and maintain documented portfolio monitoring, risk rating, reserve, impairment, loss recognition, nontraditional financing, and capital sustainability practices that support consistency, transparency, accountability, and traceability over significant portfolio decisions and future lending capacity analysis.

NDDF should:

1.1 **Future Lending Capacity and Sustainability Analysis:** Perform and document periodic analyses of future lending capacity that consider loan repayments, recoveries, expected losses, allowance balances, provision expense, capital deployment, operating results, and external appropriations or transfers. The analysis should evaluate the extent to which future financing activity can be supported through portfolio generated resources and should include performance measures related to portfolio growth, net portfolio value, capital returned, capital deployed and estimated future lending capacity.

1.2 **Portfolio monitoring, reassessment, and escalation:** Establish documented policies and procedures for portfolio monitoring, risk reassessment, impairment evaluation, recovery activities, and loss recognition. Procedures should define review frequency, risk indicators, escalation thresholds, reassessment requirements, documentation standards, and management actions for delinquent, nonaccrual, impaired, restricted, or otherwise higher risk transactions.

1.3 **Board oversight and reporting:** Establish Board reporting requirements and a structured process for periodically evaluating portfolio performance, risk concentrations, reserve adequacy, impairment activity, charge-offs, recoveries, capital deployment, reliance on external funding, and future lending capacity. These assessments should support risk tolerance evaluations, capital sustainability monitoring, and oversight of the Fund's revolving capital structure.

1.4 **Risk ratings, reserve methodology, impairment, and loss recognition:** Develop documented methodologies for assigning and reassessing risk ratings, evaluating impairment, determining reserve levels, applying valuation adjustments, and recognizing losses. Methodologies should identify factors considered in the analysis, describe how professional judgment is applied, and establish review and approval requirements to support consistent treatment of similar transactions.

1.5 **Risk tolerance and exposure parameters:** Establish documented risk tolerance criteria for loans, equity investments, and other financing positions. Criteria should address how risk ratings are assigned and reassessed, how much exposure may be accepted at each risk level, and when higher risk transactions require enhanced analysis, additional approval, Board reporting, or more frequent monitoring. The criteria may include dollar thresholds, portfolio concentration guidelines, reserve impact considerations, expected public benefit, expected return, and future lending capacity considerations for transactions rated 4, 5, or 6.

1.6 **Documentation and retention of significant portfolio decisions:** Establish documentation and retention requirements for significant portfolio decisions, including risk ratings, reserve determinations, impairment assessments, valuation adjustments, restructurings, loan-to-equity conversions, charge-offs, recoveries, and other portfolio actions. Documentation should support the basis for decisions, approvals obtained, timing of significant actions, and alignment with NDDF's mission, risk tolerance, portfolio objectives, and capital stewardship responsibilities.

*Refer to Managements Response in **Appendix**.*

Finding 2 and Recommendations

NDDF Should Strengthen Conflict of Interest Controls to Ensure Identification, Evaluation, Documentation, and Monitoring of Related Party Relationships and Transactions

Condition

NDDF did not retain Board conflict of interest forms for FY20 or FY21 and retained only one Board member conflict of interest form for FY22. Additionally, NDDF did not maintain a centralized process for identifying and tracking related party relationships or a documented process for comparing Board disclosures, staff acknowledgments, applicant representations, and other relationship information to proposed financing decisions.

Through comparison of available Board disclosures for the FY20 through FY24 NDDF loan and equity portfolio, we identified 5 entities with relationships to 2 Board members. Four of the five entities had an identified relationship with one Board member, and one entity had an identified relationship with a second Board member. The identified entities received approximately $3.96 million in total funding, consisting of two loan transactions totaling approximately $3.15 million and three equity transactions totaling approximately $805,000.

At the time funding was approved, four of the five transactions were assigned a risk rating of 6 and one transaction was assigned a risk rating of 5, based on NDDF judgement as no defined criteria was established to distinguish a rating of 4, 5 or 6. Under NDDF's reserve approach, these ratings were associated with reserve levels of 100% for the three equity transactions and 50% for the $3.0 million loan transaction.

Of the two loan transactions, the $150,000 loan was paid in full. The remaining four transactions consisted of one $3.0 million loan and three equity investments totaling $805,000. The $3.0 million loan remained in accrual status. Of the equity investments, $150,000 had been charged-off, $175,000 was in nonaccrual status, and the remaining $480,000 had not received any payments but remained subject to ongoing portfolio monitoring.

Although certain related party relationships and potential conflict of interest could be identified through Board disclosures, Board minutes, and notes to the audited financial statements, NDDF did not maintain centralized records demonstrating how related party relationships were identified, documented, and monitored, or how conflict disclosures were evaluated against financing decisions and known related party relationships. As such, NDDF could not demonstrate that related party relationships were identified and evaluated, that conflict of interest information were consistently reviewed and documented, or that related party and conflict of interest information was incorporated into financing and ongoing governance decisions.

Conflict of Interest Disclosure Forms

The design of the disclosure forms further limits the effectiveness in identifying related party relationships. The forms reviewed did not require identification of whether a disclosed entity was an NDDF applicant, borrower, investee, guarantor, affiliate entity, or other counterparty, and did not require disclosure of indirect benefits, family relationships, or other matters that could create conflicts requiring recusal. In several instances, Board member disclosures identified business interests or affiliated entities; however, NDDF could not demonstrate that those disclosures were compared to NDDF loans or equity positions, including transactions involving affiliated or related business names.

Disclosure practices were also not uniform. Some Board members used Secretary of State Statement of Interests forms that included spouse information and broader disclosure categories such as associations, directorships, and fiduciary relationships, while the NDDF form did not include comparable fields. Certain annual updates were documented through email confirmations stating that no changes had occurred rather than execution of updated certifications. In some cases, clarification of business relationships was obtained through follow up correspondence rather than through the disclosure form itself, resulting in reliance on supplemental inquiry rather than explicit disclosure.

Criteria

NDDF governance documents establish expectations for identifying, evaluating, and managing conflicts of interest and related party transactions. The NDDF bylaws require Board members to sign an annual Code of Ethics, establishing a baseline expectation for ethical conduct and compliance. The NDDF Code of Ethics further requires Board members to disclose financial or monetary interests in funding requests, refrain from participating in discussions or votes where a direct financial benefit exists, avoid actions that could result in private gain, preferential treatment, or loss of independence, and document abstentions in meeting records. In addition, the NDDF Investment Policy establishes that investment requests involving Board members, staff, or immediate family members should not be processed or funded unless specifically authorized by the Board, with such authorization requiring a unanimous vote.

NDDF’s conflict of interest statement also requires Board members to disclose related party transactions and certify the completeness of their financial interests. Additionally, the North Dakota Department of Commerce employee ethics policy requires employees to avoid conflicts between private financial interests and public duties and prohibits direct or indirect financial interests in public contracts or business transactions involving the State where such interests could influence decision making. Consistent with generally accepted lending and governance practices, including banking supervisory guidance applicable to insider and related party transactions, NDDF should maintain monitoring records of related party transactions, and document the review of insider related lending decisions to prevent preferential treatment and mitigate risk.

Given NDDF’s financing activities, a control process would be expected to include explicit disclosure requirements, transaction level screening of borrowers and related parties, documentation of how conflicts were evaluated, mitigated, and resolved for each financing decision, and a mechanism to track related party transactions identified through internal reviews, applicant disclosures, Board disclosures, or financial statements. Such tracking should include sufficient information to determine whether the relationship existed during the relevant transaction period and whether the relationship was subsequently resolved, such as through resignation from the Board or other change in status.

Cause

NDDF’s conflict of interest governance structure was designed primarily as an annual disclosure and ethical compliance process. It did not establish a formal transaction level process requiring consistent identification, comparison, evaluation, documentation, approval, and tracking of conflicts of interest and related party relationships before financing decisions were made.

Conflict related requirements were dispersed across multiple documents, including the Code of Ethics, Investment Policy, application materials, and staff ethics acknowledgements. However, NDDF did not establish a defined workflow requiring disclosures and applicant information to be compared to specific financing decisions. Disclosure forms capture general financial interests but do not require affirmative identification of whether disclosed entities were NDDF applicants, borrowers, investees, guarantors, affiliates, or other counterparties.

In addition, NDDF did not establish record retention requirements or centralized tracking processes to ensure that Board disclosures were maintained and available for conflict review for each fiscal year. As a result, the design and operation of conflict of interest controls did not support consistent identification, documentation, and tracking of related party relationships at the transaction level.

Effect or Potential Effect

NDDF could not demonstrate that conflicts of interest and related party relationships were consistently identified, evaluated, resolved, and documented before financing decisions were made during FY20 through FY24. Missing or limited Board disclosures records, the absence of a centralized related party monitoring process, and a lack of transaction level review process reduced NDDF's ability to show that known relationships were addressed consistently.

These documentation and process gaps reduce transparency, consistency, and auditability of financing decisions involving Board members, affiliated entities, or other related parties. They also limit NDDF's ability to demonstrate compliance with its Code of Ethics, Investment Policy, and conflict disclosure requirements.

Recommendation

NDDF should strengthen conflict of interest, governance, and related party controls by taking the following actions:

2.1 **Establish a documented prefunding conflict review process:** Establish a formal process for identifying, evaluating, resolving, approving, and tracking conflicts of interest and related party relationships before financing decisions are made. The process should apply at the transaction level and require documentation of the review performed, information considered, conclusions reached, mitigation steps, recusal decisions, evidence of non-participation, and required Board approval.

2.2 **Compare proposed transactions to conflict and related party information:** Before approval, NDDF should compare proposed borrowers, principals, guarantors, investees, affiliated entities, and related business names against Board disclosures, staff disclosures or acknowledgments, applicable related party representations, and other known related party information. The comparison should consider affiliated or related business names disclosed by Board members or staff, not only exact matches to applicant names. The transaction file should document the results of the comparison and any related mitigation, recusal, independent review, or approval decisions.

2.3 **Maintain a centralized related party tracking mechanism:** NDDF should maintain a centralized tracking mechanism for Board member, staff, applicant, borrower, investee, guarantor, affiliated entity, and other related party relationships. The tracking mechanism should include relationships identified through annual disclosures, applicant representations, financing records, other governance reviews, and should support consistent consideration of known relationships during future financing decisions.

2.4 **Strengthen annual disclosure forms and retention requirements:** NDDF should update conflict of interest disclosure forms and related disclosure expectations to require disclosure of direct and indirect financial interests, beneficial ownership, family relationships, fiduciary roles, affiliated business names, and whether any disclosed entity is an NDDF applicant, borrower, investee, guarantor, affiliated entity, or other counterparty. Establish record retention requirements to ensure annual Board and staff conflict of interest forms are obtained, retained, and available for each fiscal year.

*Refer to Managements Response in **Appendix**.*

Finding 3 and Recommendations

NDDF Should Verify Borrower Reported Job Data Used to Demonstrate Program Results

Condition

NDDF relies on borrower reported job data to track and report job outcomes associated with funded projects but has not clearly defined how borrower reported job data should be reviewed, corroborated, or used in funding decisions, program monitoring, legislative reporting, or evaluation of statutory outcomes. N.D.C.C. § 10-30.5-09 requires NDDF to report an estimate of jobs created and jobs preserved through its investments. While the statute requires an estimate, it does not prescribe how those estimates are developed, supported, reviewed, corroborated, or communicated.

As a result, job outcomes used to demonstrate program results are based on borrower reported information that is not independently corroborated. This limits the usefulness of the information for evaluating program results, assessing economic impact, and understanding how reported outcomes align with NDDF's statutory purpose.

Analysis of Borrower-Reported Job Data

Analysis included 91 funded projects for borrowers reported job data during FY20 through FY24. These projects represented approximately $38.0 million in total contract amounts and 424.5 reported net new jobs. The 91 projects do not represent all 126 loan and equity projects approved during this period because job data was not applicable for all projects. Projects were excluded when no job data was reported, the account had not been active long enough to reach the applicable job reporting period, or job reporting requirements did not apply to the program or financing structure. Therefore, the analysis reflects reported outcomes for projects with available job data, rather than a complete measure of all funded activity during the review period. The reported job data was not independently verified.[10]

Reported job outcomes were concentrated in a limited number of locations. As shown in **Table L**, Fargo, Grand Forks, Bismarck, and West Fargo accounted for approximately 81% of all reported net new jobs despite representing approximately 66% of funded projects included in the analysis. This concentration suggests that reported job outcomes were driven primarily by a limited number of geographic areas rather than being distributed evenly across the portfolio.

The analysis also demonstrates substantial variation between reported job outcomes and funding levels. Some locations reported comparatively high numbers of jobs relative to funding received, while others reported few jobs despite significant funding amounts. As a result, the reported relationship between funding and job outcomes was not consistent across locations. The variation suggests that financing amounts alone does not explain reported job results and that reported outcomes may be influenced by other project specific factors, business conditions, industry characteristics, or borrower reporting practices.[11]

Because the job data was borrower reported and not independently verified, **Table L** should be interpreted as a summary of reported outcomes and geographic concentrations rather than a verified measure of actual jobs created or preserved through NDDF financing.

[10] Job data does not include one project, which was funded for approximately $32 million in FY24, because the project had not yet reached the annual job data collection point. As a result, job information was not available for inclusion.

[11] "All Other Locations" included 18 funded projects and approximately $11.37 million in total contract amounts but reflected only 1.0 reported net new job in aggregate, due to offsetting positive, neutral, and negative borrower reported job changes across 13 locations.

Table L: Location-Level Trends, FY20–FY24

#	Location	Funded Projects A	Contract Amount B	Reported Net New Jobs C	Average Reported Jobs per Project C ÷ A	Average Funding per Project B ÷ A	Average Funding per Reported Job B ÷ C
1	Fargo	28	$12,008,200	130.5	4.7	$428,864	$92,017
2	Grand Forks	17	$5,405,875	108	6.4	$317,992	$50,054
3	Bismarck	6	$1,672,500	65.5	10.9	$278,750	$25,534
4	West Fargo	9	$1,546,500	38	4.2	$171,833	$40,697
5	Casselton	2	$137,000	25.5	12.8	$68,500	$5,373
6	Bottineau	1	$300,000	19	19	$300,000	$15,789
7	Jamestown	3	$1,038,750	14	4.7	$346,250	$74,196
8	Velva	1	$35,000	8.5	8.5	$35,000	$4,118
9	Minot	2	$520,000	7.5	3.8	$260,000	$69,333
10	Williston	4	$3,950,000	7	1.8	$987,500	$564,286
	All Other Locations	18	$11,370,975	1	0.1	$631,721	$11,370,975
	Total / Overall Average	**91**	**$37,984,800**	**424.5**	**4.7**	**$417,415**	**$89,481**

Source: NDDF borrower-reported job data, not independently verified.
Note: Average columns in the Total row are recalculated using total reported net new jobs, total funded projects, and total contract amount. The average columns are not summed.

Reported job outcomes were also concentrated within a limited number of sectors. As shown in **Table M**, Child Care / Early Education accounted for approximately 59% of all reported net new jobs while representing approximately 54% of funded projects included in the analysis. As a result, reported portfolio level job outcomes were heavily influenced by the performance of a single sector.

Table M: Net New Jobs by Sector, FY20–FY24

Sector (Industry)	Funded Projects A	Contract Amount B	Reported Net New Jobs C	Average Reported Jobs per Project C ÷ A	Average Funding per Project B ÷ A	Average Funding per Reported Job B ÷ C
Child Care / Early Education	49	$7,953,173	248.5	5.1	$162,310	$32,005
Technology / Software	10	$6,700,500	69	6.9	$670,050	$97,109
General Business / Other	11	$4,494,000	53.5	4.9	$408,545	$84,000
Manufacturing	5	$5,097,252	24	4.8	$1,019,450	$212,386
Healthcare	3	$4,002,500	19.5	6.5	$1,334,167	$205,256
Energy / Utilities	5	$4,572,500	7.5	1.5	$914,500	$609,667
All Other Sectors	8	$5,164,875	2.5	0.3	$645,609	$2,065,950
Total / Overall Average	**91**	**$37,984,800**	**424.5**	**4.7**	**$417,415**	**$89,481**

Source: NDDF borrower-reported job data, not independently verified.
Note: Average columns in the Total row are recalculated using total reported net new jobs, total funded projects, and total contract amount. The average columns are not summed.

Excluding Child Care / Early Education, the average funding per reported job increased substantially, indicating that reported job outcomes varied significantly across industries. Certain sectors reported comparatively high levels of job creation relative to funding amounts, while others received substantial funding but reported fewer net new jobs. These differences suggest that industry characteristics may affect reported job outcomes and that portfolio level averages may not fully reflect variations among sectors.

The analysis also indicates that reported job creation was not distributed proportionately across funded sectors. Technology / Software, General Business / Other, and Child Care / Early Education reported the largest concentrations of jobs, while Energy / Utilities, Healthcare, Manufacturing, and All Other Sectors generally reported lower job totals relative to funding amounts. Consequently, portfolio level job metrics were influenced by both the concentration of funding within certain sectors and differences in reported employment outcomes across industries.

Also shown in **Table M**, "All Other Sectors" combined Agriculture, Food and Beverage, and Real Estate / Property Management. Together, these sectors included 8 funded projects, approximately $5.16 million in contract amounts, and 2.5 reported net new jobs. The resulting average funding per reported job was approximately $2.07 million. This measure is affected by the small net job total, including positive, zero, and negative reported net job changes within the combined sector group.

Table N shows reported job longevity, or the extent to which borrower reported jobs were maintained over time, which varies by funding year and is affected by whether projects had reached a post-funding reporting point. For purposes of this analysis, a post funding reporting point means at least two years after funding, when sufficient time has passed for a borrower to submit job outcome information for the applicable reporting period. Projects that had not reached this point were not evaluated for job longevity because reported job levels could not yet be assessed over time.

The job data analysis included 91 funded projects with approximately $38.0 million in total contract amounts and 424.5 reported net new jobs. Of these 91 projects, 77 had sufficient reporting history to evaluate whether reported job levels were sustained over time. 14 projects funded in 2024 were not evaluated for longevity because they had not reached the applicable post funding reporting point.

Table N: Job Longevity Results for Projects Evaluated, FY20–FY24

Year of Funding	Funded Projects	Evaluated for Longevity A	Met Longevity Criteria B	Did Not Meet Longevity Criteria	Contract Amount for Projects Meeting Criteria C	Contract Amount for Projects Not Meeting Criteria D	Percent Meeting Criteria B ÷ A	Net New Jobs From Projects Meeting Criteria
2019	29	29	19	10	$4,524,000	$1,275,375	65.52%	129.5
2020	15	15	10	5	$1,355,000	$1,028,000	66.67%	17
2021	8	8	7	1	$1,945,000	$3,000,000	87.50%	90
2022	10	10	7	3	$6,025,000	$2,439,000	70.00%	60.5
2023	15	15	2	13	$1,546,250	$4,972,502	13.33%	13
2024	14	0	N/A	N/A	N/A	$9,874,673	N/A	N/A
Total	**91**	**77**	**45**	**32**	**$15,395,250**	**$22,589,550**	**58.44%**	**310**
			Total C + D		**$37,984,800 Total Contract Amount**			

Source: NDDF borrower-reported job data, not independently verified.

Summarized in **Table N,** 45 of the 77 evaluated projects, or approximately 58%, met the defined longevity criteria. These 45 projects accounted for 310 reported net new jobs and approximately $15.4 million in contract amounts. The remaining 32 evaluated projects did not meet the defined longevity criteria based on the borrower reported job data available. The difference between the $37.98 million in total contract amounts for the 91 projects and the $15.40 million in contract amounts for projects meeting longevity criteria is approximately $22.59 million.

Earlier funding years generally had more complete reporting histories. Projects funded from 2019 through 2022 showed longevity rates ranging from approximately 65.52% to 87.50%. Projects funded in 2023 showed a lower longevity rate of 13.33%, with 2 of 15 evaluated projects meeting the criteria. Projects funded in 2024 were not evaluated for longevity because they had not reached the applicable reporting point.

Criteria
N.D.C.C. § 10-30.5-02 establishes NDDF's purpose, including supporting business development and projects that provide economic benefits to North Dakota residents through job creation or secondary business. N.D.C.C. § 10-30.5-09 requires NDDF to prepare and publish an annual report that includes an estimate of jobs created and jobs preserved by investments in North Dakota businesses. Because job creation and preservation are part of NDDF's statutory purpose and annual reporting requirements, information used to estimate and report these outcomes should be collected, maintained, reviewed, and communicated in a manner that is transparent, understandable, and sufficiently reliable for its intended use.

In addition, Standards for Internal Control in the Federal Government, Principle 13, Quality Information, states that management should obtain or generate relevant, quality information and use that information to support the functioning of the internal control system. Principle 13 also states that management should obtain relevant data from reliable internal and external sources and evaluate sources of data for reliability.

Cause
NDDF relies exclusively on borrower reported job information for estimating job creation and preservation outcomes and has not established a documented process to verify reported outcomes using independent supporting documentation. NDDF has also not defined when borrow-reported information should be corroborated, what types of documentation should be obtained, or how verification should vary based on project size, funding amount, reported job impact, risk level, or intended use of the information.

Although peer development finance entities commonly rely on borrower-reported job information and portfolio-level metrics rather than detailed verification of individual employment outcomes, NDDF's statutory purpose, legislative reporting expectations, and the visibility of job creation as a performance measure justify a more rigorous approach. Peer practices provide context, not a standard NDDF must follow, and NDDF's statutory obligations and reporting environment differ from many peers.

As a result, job outcome reporting functions as borrower-reported monitoring information, rather independently corroborated information used to demonstrate program results.

Effect or Potential Effect
Without independent verification, NDDF cannot demonstrate that borrower-reported job outcomes occurred as represented. This limits the reliability of information used to communicate program results to legislators, oversight bodies, and other stakeholders.

The absence of verification increases the risk that job outcomes may be overstated, understated, or otherwise misstated, reducing the accuracy of program impact reporting. It also limits NDDF's ability to assess whether funded projects are achieving expected economic development outcomes and whether reported job results align with the statutory purpose of the fund.

Recommendation
NDDF should strengthen the reliability of job outcome reporting by establishing a documented process to verify borrower-reported job outcomes when job creation is used to demonstrate program impact or achievement of statutory objectives.

NDDF should:

3.1 **Corroborate reported job outcomes:** NDDF should require independent supporting documentation for selected projects or for projects where job creation is a significant basis for demonstrating program results. Supporting documentation may include payroll reports, tax filings, workforce records, or other records sufficient to corroborate reported job outcomes.

3.2 **Define when verification is required:** NDDF should establish criteria for determining when reported job outcomes should be independently corroborated. Expectations may vary based on project size, program type, funding amount, reported job impact, risk level, timing of funding, and administrative burden.

3.3 **Document the intended use of job data:** NDDF should define whether job outcome information is used for contextual trend reporting, internal monitoring, legislative reporting, or evidence of statutory and program results. This distinction should be clear, so users understand whether the job information has been independently corroborated or is based on borrower reported information.

3.4 **Strengthen documentation and retention expectations:** Establish documentation and retention expectations for borrower-reported job information and any supporting records obtained. Documentation should support the source, timing, completeness, and reliability of job outcome information used for monitoring and reporting.

3.5 **Apply a risk based verification approach:** NDDF should focus additional verification on projects with larger funding amounts, significantly reported job creation, higher risk, higher public visibility, or where job creation is a key measure of program impact.

Refer to Managements Response in ***Appendix.***

Finding 4 and Recommendations

NDDF Should Strengthen Application Processing Standards, Approval Documentation, Record Retention, and Denial and Appeals Practices

Condition

NDDF had not retained sufficient documentation supporting how applications were evaluated, how underwriting decisions were reached, how eligibility or credit considerations were reassessed, or how approvals were authorized. As a result, we could not consistently verify the basis for funding decisions or determine whether required reviews and approvals occurred in accordance with policy.

Testing included 40 approved loans, equity investments, and equity-type transactions selected from 126 total approved transactions with total contract amounts of approximately $81.8 million during the audit period.[12] The sampled transactions totaled approximately $61.4 million in contract value, representing approximately 75% of the approved transaction population by dollar value. Testing identified 25 of 40 transactions, or 62.5%, with one or more documentation exceptions.

- **Missing or incomplete application, underwriting, or approval documentation.** For 13 out of 40 transactions tested, key application, underwriting, including risk rating, or approval records were incomplete, missing, or not provided, representing approximately $4.4 million.[13] Missing documentation included credit memoranda, due diligence support, financial analysis, approval evidence, and Board authorization materials. In these instances, the transaction files did not contain sufficient documentation to trace how applications were evaluated, how funding decisions were supported, or whether required reviews occurred.
- **Insufficient documentation for refinances and reevaluations.** For 6 of 40 transactions, representing approximately $2.4 million, underwriting or eligibility analysis supporting approval for refinances, restructuring, extensions of loan terms, or additional funding to existing borrowers was insufficient or unavailable. In these instances, NDDF lacked refreshed financial analysis, updated eligibility determinations, or revised credit assessments to support the continued appropriateness of the funding decision.
- **Incomplete Board oversight documentation for delegated authority transactions.** For 13 of 40 transactions approved under staff delegated authority, NDDF did not provide documentation showing that required Board review and ratification occurred, representing approximately $1.3 million. NDDF could not provide Board agendas, Board packets, meeting minutes, or other materials demonstrating that these transactions were presented to the Board as required by policy.
- **Missing Board approval documentation for transactions requiring Board involvement.** For 11 of 40 transactions requiring Board review or approval, representing approximately $4.4 million in contract value, NDDF lacked sufficient documentation showing that the Board reviewed and authorized the funding decision. Board packets, meeting minutes, and approval materials were not retained or were insufficient to demonstrate that required approvals occurred.

Application Processing Timeliness

In addition to the documentation exceptions identified across the 40 transactions tested, NDDF lacked sufficient records to demonstrate whether applications were processed within expected timeframes. For 16 of 40 applications reviewed, representing approximately $6.1 million. Documentation was incomplete or

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[12] The sample included all transactions with contract amount exceeding $1 million, as well as transactions representing a range of portfolio statuses, including performing (accrual), nonperforming (nonaccrual), charge-off, and closed loans. In addition to traditional loans, the population included equity and equity-like instruments, such as venture loans, of which 14 were included in the sample.

[13] 2 of the 13 exceptions are noted earlier in Finding #1 within Risk Ratings and Reserve Methodology.

unavailable to support key dates, such as intake, completeness review, and approval dates. Without these records, NDDF could not demonstrate how long applications remained in process, whether delays were attributable to NDDF or applicant responsiveness, or whether applications were handled consistently across the review period.

Denial Tracking and Appeals

NDDF did not maintain a formal denial tracking mechanism or a documented appeals process during the period. NDDF lacked sufficient documentation to support the number of denials across all financing programs, the reasons for denial, whether applicants sought reconsideration, or whether applicants were directed to revise proposals or pursue alternative programs. NDDF relied on informal practices that were not supported by written policy, standardized documentation, or centralized tracking.

As a result, NDDF could not demonstrate that denial decisions and reconsideration opportunities were handled consistently across applicants. The absence of formal denial tracking and documented appeal or reconsideration procedures also limited management's and oversight bodies' ability to evaluate denial trends, assess whether denial reasons were applied consistently, or verify whether applicants were provided a clear and consistent process for next steps after denial.

Criteria

Management is responsible for establishing and maintaining processes and internal controls that support consistent application processing, underwriting, approval, denial, and governance practices. Effective governance requires:

- Documented procedures for application intake, processing timeliness, completion reviews, underwriting, approval authority, denial communication, reconsideration or appeals expectations, and communication of final decisions.
- Sufficient documentation to support eligibility determinations, credit analysis, approval actions, Board oversight, processing timelines, denial decisions, and applicant communications.
- Record retention practices that allow management, the Board, auditors, and other oversight bodies to verify that applications were processed, evaluated, approved, denied, and communicated in accordance with policy and consistently across applicants.

Cause

NDDF had not established or enforced standardized documentation and record retention requirements for application processing, underwriting, approval, denial tracking, and Board oversight. Application receipt dates, completeness review documentation, underwriting support, approval evidence, Board materials, denial reasons, and reconsideration or appeal information were not maintained in a centralized method that clearly linked records to individual transactions.

In addition, NDDF's informal processing timeline expectation was not incorporated into written policy and did not define interim milestones or documentation requirements needed to demonstrate whether applications were processed timely and consistently.

Effect or Potential Effect

The absence of complete and traceable documentation limits NDDF's ability to demonstrate that applications were processed timely, evaluated consistently, refreshed when appropriate, approved in accordance with policy, and communicated clearly to applicants. These gaps reduce transparency, hinder management and Board oversight, and increase governance risk as program scale and transaction complexity grow.

Without sufficient documentation, NDDF management, the Board, legislative stakeholders, and other oversight bodies cannot independently verify whether applications were processed within expected timeframes, whether underwriting and approval decisions were consistently supported, whether denials were handled consistently, or whether applicants were provided with a clear and documented process for reconsideration or next steps.

Recommendations
To strengthen governance, transparency, and auditability, NDDF should:

4.1 **Update policies and define processing standards**: Update Board approved policies to reflect current approval authority and governance practices. Establish baseline application processing standards, including key stages such as intake, completeness review, underwriting, approval, and communication of decisions, while retaining flexibility to accommodate transaction complexity and applicant responsiveness.

4.2 **Maintain complete Board approval records**: Establish centralized tracking for transactions requiring Board review and retain documentation evidencing approval, such as Board packets, resolutions, or meeting minutes. Records should clearly support approval timing, authority, and oversight.

4.3 **Standardize documentation requirements for decisions**: Define and implement consistent documentation and record retention requirements for eligibility determinations, underwriting analyses, approvals, and denials. Records should clearly support the basis for decisions and demonstrate consistent application across transactions. Where deviations from standard practice occur, records should explain the rationale for those decisions and maintain evidence of proper approval.

4.4 **Document expectations for reevaluation**: Establish requirements for when eligibility and underwriting analyses should be reaffirmed or updated, including situations involving extended timelines, refinancing, restructures, or additional funding. Documentation should describe how earlier analyses were considered, whether conditions changed, and why a refreshed evaluation was or was not necessary.

4.5 **Formalize denial communication practices**: Document procedures for communicating denial decisions, including how applicants may seek clarification or pursue alternative options, to support transparency and consistency.

*Refer to Managements Response in **Appendix**.*

APPENDIX – Glossary of Terms Used in Report

The following terms are used throughout this report to describe NDDF's financing activities, governance structure, financial reporting, and audit procedures. These definitions are provided to support reader understanding and are intended for general reference within the report.

Accrual: loans that are current and accruing interest

Allowance for Loan & Equity Losses: Management's estimate of the amount of loans, equity investments, or other financing receivables that may not be collected or fully recovered.

Board of Directors: The eight member governing board responsible for oversight of NDDF, including approval of certain policies, financing decisions, and overall operations.

Charge-off / Write-off: The removal of all or a portion of a loan or other financing receivable from the accounting records when collection is considered unlikely. A charge-off reflects realized loss recognition.

Conflict of Interest: A situation in which a Board member, employee, or other party has a financial, personal, or business interest that could impair, or appear to impair, objective decision making.

Contract Amount: The original amount authorized or awarded under a loan, investment, or financing agreement.

Delegated Authority: Authority granted to NDDF staff to approve certain transactions below specified thresholds, subject to Board review and ratification requirements.

Delinquent Loan: A loan for which required payments are past due. Delinquency is used as an indicator of elevated credit risk and potential deterioration.

Equity Investment: A financing arrangement in which funds are provided in exchange for ownership or investment interest rather than repayment solely through a traditional loan structure.

Finding: A matter identified during audit testing that is supported by evidence and generally includes the condition, criteria, cause, effect or potential effect, and recommendation.

Governance: The processes, structures, authorities, oversight activities, and accountability mechanisms used by management and those charged with governance to direct operations, make decisions, monitor performance, manage risk, and ensure organizational objectives are achieved.

Gap Financier: A financing role in which a public or mission driven entity provides loans, equity, or other capital intended to complement rather than replace private financing. NDDF operates in this role.

Impairment: A decline in the expected recoverable value of a loan, equity investment, other financing positions that may require recognition through allowance, valuation adjustment, provision, or charge-off.

Internal Control: The policies, procedures, and activities designed to help management achieve objectives, safeguard assets, maintain reliable records, promote accountability and efficiency, and comply with applicable requirements.

Loan to Equity Conversion: A transaction in which a loan position is converted into an equity or equity-type interest rather than remaining solely a debt instrument.

Nonaccrual: A loan status in which interest is no longer recognized because of repayment concerns.

North Dakota Century Code (N.D.C.C.): The codified general and permanent laws of the State of North Dakota. Chapter § 10-30.5 provides the statutory authority governing NDDF.

Performance Audit: An audit that provides objective analysis, findings, and conclusions to assist management and those charged with governance and oversight in improving program performance, operations, decision making, and accountability.

Population: The full set of items, transactions, loans, investments, or records from which samples are selected for audit testing.

Primary Sector Business: A business that adds value to a product, service, or process and generates new wealth within the state. NDDF primarily supports these businesses.

Provision for Losses: The expense recognized during a reporting period to reflect changes in estimated credit losses, allowance balances, impairment, or valuation adjustments related to loans, equity investments, and other financing positions.

Related Party: Is a person or entity that has a relationship with another person or entity that could affect business transactions, economic interests, or decision making, such as, Board member owns the entity, serves on the company's board, is an investor in the company, or family member owns the company.

Reported Jobs: Job counts reported by borrowers or funded businesses through surveys or other reporting mechanisms. In this report, reported job data is used for contextual outcome analysis and was not independently corroborated unless specifically stated otherwise.

Reserve: In this report, a risk rating based amount or percentage used by NDDF to estimate expected loss exposure for a loan, equity investment, or other financing position. Reserves may support allowance, impairment, valuation, or expected loss considerations but are not used interchangeably with the financial statement allowance unless specifically stated.

Risk Rating: A classification assigned by NDDF to reflect the relative credit or investment risk of a loan or investment. Higher risk ratings generally correspond to higher reserve levels.

Valuation Adjustment: A reduction in the recorded value of an equity investment or similar asset to reflect impairment or reduced expected recoverability.

Write-down: A reduction in the recorded value of an asset when its carrying amount exceeds the amount expected to be realized. In this report, valuation adjustments to equity investments are the closest equivalent to write-downs reflected in NDDF's financial reporting.

APPENDIX – Benchmarking Results by Key Audit Attribute

The table below presents a consolidated view of practice-level benchmarking results related to key audit attributes assessed in this performance audit. The table integrates information from two sources: direct benchmarking survey responses and publicly available research on additional peer entities.

The benchmarking survey responses reflect practices reported by **First Children's Finance**, a national community development financial institution specializing in Child Care loan financing, and the **Missouri Technology Corporation IDEA Fund**, a state-sponsored venture capital and co-investment program comparable to NDDF's Angel Match and equity activities. These respondents represent program areas where NDDF utilizes nontraditional financing tools and deploys higher-risk capital in support of economic development objectives.

In addition to survey respondents, we conducted research and outreach to a broader population of peer entities across NDDF's major program types, including core lending and participation loan programs, regional rural revolving loan funds, Child Care financing programs, venture capital and co-investment funds, and State Small Business Credit Initiative supported loan and equity programs. Publicly available program descriptions, application materials, policies, and guidance from these non-responding peers were reviewed to supplement the benchmarking context.

Accordingly, the table is organized to present, for each audit attribute, NDDF's observed practices, common practices identified through benchmarking survey responses, and publicly documented peer practice context derived from external research. The comparison focuses on governance, monitoring, and documentation practices rather than performance outcomes and is intended to provide contextual support for the findings and recommendations presented in this report.

> **Note:** Benchmarking was used to provide context for governance, monitoring, transparency, and documentation practices. Benchmarking was not used as the sole basis for any finding, and the report does not conclude that NDDF's financial outcomes were acceptable or unacceptable solely by comparison to peer entities.

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
1	Application steps and eligibility publicly available	Eligibility criteria and application information are publicly available through NDDF and Commerce websites. Documentation improved over time.	Benchmark respondents consistently publish application steps and eligibility criteria, including program websites and guidance.	• Oregon OBDF publishes program overview, eligibility criteria, authority, administrative rules, and an application package. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • Region 9 publishes a loan program page and a downloadable application. (https://region9edd.org/business-loan-fund) • Wyoming Venture Capital publishes an online application portal and program references. (https://wyo.my.site.com/ssbci/s/) • Wyoming Business Council provides venture capital program information. (https://wyomingbusiness.org/business/financing/equity/) • Innovate Alabama publishes SSBCI program descriptions, guidelines, and FAQs. (https://innovatealabama.org/programs/ssbci/)

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
				• ADFA publishes SSBCI program descriptions and venture capital fund guidelines. (https://adfa.arkansas.gov/state-small-busines-credit-initiative-ssbci/)
2	Internal timeliness expectations	An informal internal goal of approximately 60 days was described but not codified. Actual timelines varied.	Benchmark respondents reported established internal timelines, often less than 60 days for smaller loans and less than 90 days for larger loans, with defined acknowledgment, review, and decision milestones.	• Lewis and Clark NDOF describe applicant notification within 48 hours of committee decision. (https://lcdgroup.org/north-dakota-opportunity-fund/) • Innovate Alabama states the application to investment process is approximately 45 days, with longer periods possible depending on complexity. (https://innovatealabama.org/wp-content/uploads/2024/08/Innovate-Alabama-SSBCI-InvestAL-FAQs.pdf) • Wyoming Venture Capital describes an application process and related rules and summary materials. (https://wyo.my.site.com/ssbci/s/) • OBDF and Region 9 describe process steps, although specific decision time targets were not observed on the primary pages reviewed. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • Region 9 process information (https://region9edd.org/business-loan-fund)
3	Eligibility criteria maintenance	NDDF maintains Board approved investment policies and program specific guidelines.	Benchmark respondents reported formal written policies and program specific guidelines.	• OBDF eligibility and application procedures are supported through Oregon Administrative Rules. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • Oregon Administrative Rules reference (https://oregon.public.law/rules/oar_chapter_123_division_17) • Region 9 posts program uses, loan ranges, underwriting expectations, and committee approval structure. (https://region9edd.org/business-loan-fund) • ADFA publishes venture capital fund guidelines with eligibility and match requirements. (https://adfa.arkansas.gov/programs/arkansas-venture-capital-development-fund/)

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
4	Eligibility screening tools	Screening and review are performed using program guidance and professional judgment. Standardized tools evolved over time.	Benchmark respondents reported documented screening tools and checklists and a structured multi reviewer process.	• Region 9 provides a formal loan application that functions as a standardized intake tool. (https://www.region9edd.org/uploads/Region_9_Loan_application.pdf) • OBDF provides a detailed application document with program guidelines, eligibility criteria, and required information. (https://www.oregon.gov/biz/Forms/OregonBusinessDevelopmentFundApplication_updated11.5.25.pdf)
5	Eligibility determinations documented in file	Eligibility determinations were generally documented, with gaps noted for legacy files.	Benchmark respondents reported processes intended to document eligibility determinations consistently.	• Region 9 and OBDF applications are designed to create documented files through standardized forms and required attachments. (https://www.region9edd.org/uploads/Region_9_Loan_application.pdf) • OBDF application documentation (https://www.oregon.gov/biz/Forms/OregonBusinessDevelopmentFundApplication_updated11.5.25.pdf) • Wyoming Venture Capital requires specific application documents, supporting file based decision making. (https://wyo.my.site.com/ssbci/s/)
6	Evaluation and decision tools	NDDF relied on underwriting memoranda, external analysis, and professional judgment. No single required scoring tool was identified.	Benchmark respondents reported the use of formal scoring or evaluation frameworks.	• ADFA venture capital fund guidelines include structured eligibility criteria and governance expectations. (https://adfa.arkansas.gov/programs/arkansas-venture-capital-development-fund/) • WV Jobs Investment Trust describes evaluation criteria such as location, management, market, and products. (https://wvjit.wv.gov/application/)
7	Conflict of interest safeguards	Annual Board and staff disclosures and acknowledgments were identified.	Benchmark respondents reported annual conflict of interest statements and per application safeguards, with periodic Board and staff checks.	• Public sources reviewed for most nonresponding peers described governance structures but did not consistently publish detailed conflict of interest procedures. (https://home.treasury.gov/system/files/136/SSBCI-Capital-Program-Policy-Guidelines.pdf) • Innovate Alabama SSBCI materials (https://innovatealabama.org/programs/ssbci/)

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
8	Decision authority structure	Staff and Board approval thresholds evolved over time, and policy was not always updated contemporaneously.	Benchmark respondents reported staff underwriting with internal or external committee review and Board approval.	• Region 9 states loans must be approved by a loan committee. (https://region9edd.org/business-loan-fund) • Lewis and Clark NDOF describes underwriting followed by committee approval or denial. (https://lcdgroup.org/north-dakota-opportunity-fund/) • OBDF administrative rules include delegation concepts and procedures. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • InvestSC public materials describe an investment manager and board process. (https://www.investsc.com/faq)
9	Portfolio monitoring	Monthly delinquency report monitoring and risk based monitoring were identified. Annual portfolio reviews were performed for loans greater than $100,000, with informal monitoring for lower balances. Annual portfolio review with the Board was also noted.	Benchmark respondents reported monthly monitoring with an early warning focus, annual portfolio review with board observer involvement, and quarterly committee monitoring.	• Wyoming Venture Capital states it remains involved after investing and lists board observer participation as a service to the portfolio. (https://wyomingbusiness.org/business/financing/equity/) • Innovate Alabama InvestAL requires quarterly and annual reporting to Treasury as a condition of funding. (https://innovatealabama.org/programs/ssbci/) • Public documents for OBDF and Region 9 reviewed focused more on origination and eligibility than on ongoing monitoring cadence. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • Region 9 materials (https://region9edd.org/business-loan-fund)
10	Monitoring documentation	Monitoring was performed in practice, although policies and documentation standards were not fully formalized.	Benchmark respondents reported monitoring practices documented in internal frameworks and committee or Board materials.	• SSBCI programs publicly reference required reporting, including Treasury quarterly and annual reporting expectations, particularly for equity and venture capital programs. (https://innovatealabama.org/programs/ssbci/) • Treasury SSBCI capital program guidelines (https://home.treasury.gov/system/files/136/SSBCI-Capital-Program-Policy-Guidelines.pdf) • Wyoming Venture Capital notes that programs may be subject to random audits and public transparency listing. (https://wyo.my.site.com/ssbci/s/)

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
11	Write-off and loss tolerance	NDDF evaluated charge-offs at the portfolio level in the context of mission and sustainability and did not use fixed numeric thresholds.	Benchmark respondents reported a range of practices, from defined tolerance ranges to ad hoc processes, including notification where organizations are dissolved.	• WV Jobs Investment Trust describes investments structured for liquidation within three to five years and event driven exits rather than numeric loss thresholds. (https://wvjit.wv.gov/application/) • ADFA describes deployment across multiple credit support and venture capital programs but public pages reviewed did not specify numeric charge-off tolerance ranges. (https://adfa.arkansas.gov/state-small-busines-credit-initiative-ssbci/)
12	Impairment methodology	NDDF relied on delinquency status, management judgment, and financial reporting allowances. The methodology was not fully formalized.	Benchmark respondents reported a range of practices, including combinations of qualitative and quantitative approaches and equity focused models. Standardized impairment methods were not emphasized.	• Treasury SSBCI capital program guidelines do not prescribe a single impairment methodology across jurisdictions, which supports the report framing that practices vary. (https://home.treasury.gov/system/files/136/SSBCI-Capital-Program-Policy-Guidelines.pdf) • For venture focused programs, public materials emphasize due diligence, match requirements, and reporting rather than detailed impairment methodologies. (https://innovatealabama.org/wp-content/uploads/2024/08/Innovate-Alabama-SSBCI-InvestAL-FAQs.pdf) • ADFA venture capital materials (https://adfa.arkansas.gov/programs/arkansas-venture-capital-development-fund/)
13	Loan to equity transition policies	A limited number of transitions occurred, and no formally approved policy was in place during most of the review period.	Benchmark respondents reported a range of practices, from policies governing transitions for applicable capital pools to no formal policy.	• For web researched peers, ADFA materials describe equity based terms and WVJIT materials describe hybrid structures, even where explicit transition policies are not publicly described. (https://adfa.arkansas.gov/programs/arkansas-venture-capital-development-fund/) • WV Jobs Investment Trust application information (https://wvjit.wv.gov/application/)
14	Sustainability and capital recycling	Sustainability was evaluated at the fund level, considering portfolio growth, appropriations, and loss absorption.	Benchmark respondents reported sustainability measures such as net assets and capacity to support portfolio growth, portfolio	• Public SSBCI materials emphasize leverage and private match expectations, which shape sustainability planning across programs. (https://home.treasury.gov/system/files/136/SSBCI-Capital-Program-Policy-Guidelines.pdf)

#	Audit Attribute Area	North Dakota Development Fund (NDDF)	Common Practice Among Benchmark Respondents	Publicly Documented Peer Practice Context (Web Research)
			growth, capital growth trends, additional capital raised, regulatory progress, and revenue growth.	• Innovate Alabama materials reference ongoing reporting commitments. (https://innovatealabama.org/programs/ssbci/)
15	Job and outcome monitoring	Borrower reported job data was used for trend and context rather than as a verification process.	Benchmark respondents consistently publish application steps and eligibility criteria and incorporate job or outcome monitoring into program context.	• OBDF eligibility emphasizes job creation or retention as part of eligibility. (https://www.oregon.gov/biz/programs/OBDF/Pages/default.aspx) • InvestAL and Wyoming Venture Capital materials emphasize economic impact considerations and public transparency expectations, supporting an outcome monitoring focus. (https://innovatealabama.org/wp-content/uploads/2024/08/Innovate-Alabama-SSBCI-InvestAL-FAQs.pdf) • Wyoming Venture Capital application portal (https://wyo.my.site.com/ssbci/s/)

APPENDIX – Management Responses

North Dakota Development Fund

Performance Audit Report - Management Responses

Finding #1 – NDDF Should Strengthen Portfolio Monitoring, Risk Ratings, Reserve Methodology, Loss Recognition, Nontraditional Financing Instruments, and Capital Sustainability Analysis

Management Response

Management appreciates the Auditor's review and the opportunity to further strengthen the North Dakota Development Fund's (NDDF) portfolio governance, risk management, and capital sustainability framework. We generally concur with the intent of the recommendations and recognize the value of continuing to formalize policies, methodologies, reporting, and documentation that support consistency, transparency, accountability, and sound stewardship of the NDDF's revolving capital resources. Management believes it is important to provide the following context regarding the NDDF's mission, operations, and current state.

The NDDF provides flexible gap financing to qualifying North Dakota businesses that cannot obtain sufficient conventional financing. As a result, the NDDF intentionally assumes a higher level of credit and investment risk than traditional financial institutions. The NDDF's allowance for loan and investment losses reflects this mission-driven risk profile and is established based on expected losses within the portfolio. While these provisions may exceed those of conventional lenders, they are consistent with the Fund's economic development purpose of facilitating projects that generate jobs, investment, and long-term economic growth that would not otherwise occur through private capital markets alone.

The NDDF recycles public capital by providing financing to qualifying North Dakota businesses that lack adequate access to conventional financing. Because loans and investments are funded upfront while repayments and investment realizations occur over extended periods, annual capital deployments commonly exceed portfolio-generated cash inflows, particularly during periods of portfolio growth. This is an expected characteristic of the NDDF's business model and reflects its commitment to supporting new economic development opportunities rather than maximizing short-term cash generation and return on investment.

A portion of NDDF program offerings are designed to serve early-stage and emerging North Dakota businesses. These businesses often fall outside traditional underwriting standards as they present materially higher credit and investment risk than more mature businesses. The NDDF recognizes early-stage businesses experience higher failure rates than established companies. Consequently, loans and investments made through these programs are expected to produce higher default rates, investment impairments, and longer periods before repayment or liquidity events occur. These outcomes are an inherent feature of the market segment being served rather than an indication of deficiencies in underwriting or portfolio management. The Fund deliberately accepts these risks because they address a financing gap within the broader capital market. Conventional lenders generally require established cash flow, sufficient collateral, and demonstrated repayment capacity, while private equity and venture capital investors often seek opportunities that meet specific return, industry, or geographic criteria. Many otherwise viable businesses with meaningful economic development potential do not satisfy either set of requirements, leaving them without adequate access to capital.

The NDDF's economic development focus leads it to exercise patience with distressed portfolio companies instead of accelerating collection actions. The NDDF works collaboratively with distressed portfolio companies that make meaningful, good faith efforts to execute on their business plans. Doing so maintains the likelihood anticipated economic impacts are realized and capital can be recovered and recycled. However, operating with patience can lead to extended timelines, beyond those typically tolerated by traditional financial institutions.

By providing flexible gap financing, the NDDF fulfills its statutory mission of supporting businesses that are unlikely to obtain sufficient financing through private markets alone. This mission necessarily results in a portfolio that carries a higher aggregate risk profile than those of traditional financial institutions. Accordingly, the NDDF manages its portfolio with the expectation that individual losses will occur while seeking to achieve acceptable portfolio-level performance and measurable economic development outcomes over the long term.

Many of the matters identified in the audit reflect historical portfolio conditions and governance practices. The NDDF has experienced significant leadership and personnel changes and has undertaken numerous improvements to its lending, investment, portfolio management, governance practices, and more. These improvements include more rigorous portfolio monitoring, stronger documentation practices, and greater emphasis on accountability and transparency.

While management believes these efforts have substantially improved the Organization's control environment, we acknowledge that various practices have evolved operationally without being fully documented in a comprehensive and integrated governance framework. Accordingly, management agrees that additional policy development and formal documentation will further improve consistency, transparency, and auditability while supporting future organizational continuity.

Beginning in Q4 of 2026, following the conclusion of the NDDF's annual financial audit, management will conduct a comprehensive assessment of existing policies, procedures, analytical models, and governance practices to identify where current operations should be formalized or enhanced. Based on that assessment, management will develop and implement integrated portfolio management enhancements that may include comprehensive operating policies, documented portfolio management methodologies, standardized portfolio monitoring procedures, and enhanced board reporting.

Subsequently, management intends to implement enhancements through a phased approach. Priority will be given to formalizing methodologies and documentation where current practices already exist, followed by implementation of additional reporting and analytical tools that strengthen long-term portfolio oversight and operations.

Management will provide periodic implementation updates to the Board of Directors and recognizes that the NDDF's governance framework should continue to evolve as the portfolio matures and the NDDF's financing activities expand. Management believes the actions underway, together with the additional enhancements identified in this response, will further strengthen the NDDF's operations.

Finding #2 – NDDF Should Strengthen Conflict of Interest Controls to Ensure Identification, Evaluation, Documentation, and Monitoring of Related Party Relationships and Transactions

Management Response

Management appreciates the Auditor's review and the recommendations regarding conflict-of-interest governance and related party controls. We agree that formal, well-documented processes are essential to supporting the NDDF's financing decisions and to demonstrating transparency, consistency, accountability, and effective governance.

Management believes it is important to provide context regarding the current state of the NDDF's governance practices. Many of the observations in this finding relate to documentation, record retention, and control processes that existed during earlier years within the audit scope. Since then, the NDDF has implemented significant governance enhancements designed to strengthen conflict of interest oversight and support the NDDF's financing decisions.

The NDDF's Board of Directors has consistently demonstrated a strong commitment to ethical conduct and compliance with its fiduciary responsibilities. In furtherance of that commitment, the Board adopted a policy prohibiting related party transactions, thereby establishing a governance standard that is more restrictive than managing such transactions through disclosure and recusal alone. Management believes this policy substantially reduces the potential for actual or perceived conflicts of interest in future financing decisions. Moreover, the NDDF has reduced its related party loans receivable and equity investments as of June 30, 2023, and 2024, as reflected in the NDDF's audited annual financial statements. Presently, and in accordance with its policy, the NDDF does not have any related party loans receivable or equity investments.

In addition, the NDDF has enhanced its annual conflict of interest disclosure forms to capture more comprehensive information regarding potential conflicts. Records retention practices have also been strengthened to ensure annual conflict of interest disclosures are consistently collected, maintained, and available for review. These improvements have significantly enhanced the NDDF's governance framework and its ability to demonstrate compliance with applicable ethical and conflict of interest requirements.

Management also recognizes that opportunities remain to further integrate conflict of interest compliance into the NDDF's operations. While the NDDF's governance documents establish ethical expectations, disclosure requirements, recusal obligations, and now prohibit related party financing transactions, management agrees that additional formalization of transaction-level review procedures, centralized relationship tracking, documentation standards, and monitoring practices will further improve consistency, transparency, and auditability.

Accordingly, beginning in Q4 of 2026, following the conclusion of the NDDF's annual financial audit, management will review its conflict-of-interest policies, related party governance practices, and corresponding workflows. Subsequently, the NDDF will continue strengthening its conflict-of-interest governance framework by identifying and implementing enhancements through a phased approach that builds upon the substantial governance improvements already achieved.

Finding #3 – NDDF Should Verify Borrower Reported Job Data Used to Demonstrate Program Results

Management Response

Management appreciates the Auditor's observations regarding the use of borrower-reported job data and agrees that performance measures should be transparent, consistently applied, and clearly communicated to legislators, policymakers, and other stakeholders. Management believes it is important, however, to distinguish between company-reported performance information used to estimate program outcomes and independently audited employment data. The NDDF's enabling statutes require the reporting of an estimate of jobs created and jobs preserved but do not prescribe a methodology for developing those estimates or require independent verification of borrower-reported employment information. Historically, the NDDF has relied on company certifications to estimate employment outcomes. This practice has not previously been identified as a material control deficiency.

The NDDF's financing activities are supported by rigorous underwriting, due diligence, and ongoing portfolio monitoring. Companies routinely provide financial, operational, and compliance information throughout the life of a financing relationship, and management relies on that information in administering its portfolio.

Management believes company-reported employment information is appropriately viewed as one component of that broader reporting framework and, absent evidence indicating material inaccuracies, has generally considered such information to be sufficiently reliable for estimating statutory performance measures. Currently, there is no evidence that company-reported job information has been materially inaccurate or intentionally misstated.

Management further believes that employment should be considered as one of several indicators of economic development impact. North Dakota's economic environment is characterized by low unemployment, high labor force participation, and persistent workforce shortages. Correspondingly, the public benefits associated with financing must extend beyond net new job creation. Business formation, technology commercialization, business retention, productivity improvements, wage growth, private capital investment, rural economic resilience, expanded childcare capacity, and long-term economic diversification are also important impacts of the NDDF's statutory purpose and public impact.

Beginning in Q4 of 2026, following the conclusion of the NDDF's annual financial audit, management will evaluate opportunities to strengthen documentation surrounding borrower-reported employment estimates and may implement risk-based corroboration procedures where practical. However, management believes that any enhanced verification activities should remain proportional to the statutory requirement to report estimated employment outcomes, the NDDF's available administrative resources, and the broader public purpose served by the NDDF. Subsequently, implementation of additional verification procedures must bebalanced against the administrative burden imposed on borrowers, the cost of performing verification activities, and the potential diversion of resources from the NDDF's primary mission of providing financing to North Dakota businesses. Management also notes that the geographic and industry distribution of reported outcomes reflects the composition of applications received rather than factors controlled by the NDDF and therefore does not necessarily indicate opportunities for additional management action.

Finding #4 – NDDF Should Strengthen Application Processing Standards, Approval Documentation, Record Retention, and Denial and Appeals Practices

Management Response

Management appreciates the Auditor's review and recognizes the value of strengthening documentation, governance, and record retention practices supporting the NDDF's financing activities. We generally concur with the recommendations and view them as constructive opportunities to further enhance the consistency, transparency, and auditability of the Organization's application processing and decision-making framework.

Management believes it is important to provide context regarding the period covered by the audit. Many of the documentation and record retention exceptions identified in this finding were concentrated during the earlier years of the audit period. Since then, the NDDF has experienced significant leadership and personnel changes and has implemented improvements to record retention, underwriting documentation, Board materials, and governance practices. In addition, the NDDF no longer utilizes delegated lending authority. All financing decisions, including approvals, modifications, restructurings, and other material actions, are now considered and approved by the Board of Directors, substantially enhancing governance oversight and reducing the documentation concerns associated with delegated authority identified in the audit.

Management agrees that maintaining complete underwriting files, Board approval documentation, and consistent record retention practices is essential to demonstrating the basis for financing decisions. The NDDF will continue building upon the improvements already implemented by reviewing and updating policies governing various aspects of NDDF operations.

Management also agrees that applicants should receive clear communication regarding financing decisions and that documenting denial practices will improve transparency and consistency. The Organization will evaluate formal procedures describing denial communications, reconsideration requests, and applicant follow-up while preserving appropriate flexibility to work collaboratively with applicants whose projects may be improved, restructured, or better aligned with other financing programs before a final decision is reached.

Management respectfully notes, however, that application processing timelines should be considered within the context of the Organization's mission and the diverse nature of its financing activities. Processing times are influenced by numerous factors outside the Organization's direct control, including applicant responsiveness, the completeness and quality of information submitted, negotiations with participating lenders or investors, project complexity, and changing business conditions. As a result, management believes that while timely processing is an important operational objective, policies should emphasize disciplined underwriting, thoughtful investment analysis, and sound credit and investment decision-making rather than establish inflexible processing timelines that may not be appropriate for every transaction. The NDDF will evaluate opportunities to establish internal processing expectations and performance measures while preserving management's ability to exercise professional judgment based on the complexity and unique circumstances of each financing request.

Management anticipates identifying, evaluating, and implementing applicable enhancements through a phased approach, beginning in Q4 of 2026, following the conclusion of the NDDF's annual financial audit, that builds upon the substantial operational improvements already achieved. The NDDF believes that continuing to strengthen documentation standards, record retention, and governance practices will further improve transparency and consistency while maintaining the flexibility necessary to prudently evaluate a diverse portfolio of loans, equity investments, restructurings, and other financing transactions in fulfillment of its public mission.