



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

Tuesday, November 28, 2023

Governor's Conference Room or Microsoft Teams – 9:00 am

Join on your computer or mobile app

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Or call in (audio only)

[+1 701-328-0950,,615386949#](#)

- I. Bank of North Dakota – Todd Steinwand, Jared Mack (Eide Bailly)**
 - A. Presentation of the Following Audits for Year Ending June 30, 2023
 - i. Ag PACE Fund (Attachment 1)
 - ii. PACE Fund (Attachment 2)
 - iii. Medical Facility Infrastructure Loan Fund (Attachment 3)
 - iv. Rebuilders Loan Program (Attachment 4)
 - v. Addiction Counselors Internship Loan Program (Attachment 5)
 - vi. Infrastructure Revolving Loan Fund (Attachment 6)
 - vii. School Construction Revolving Loan Fund (Attachment 7)
 - viii. COVID-19 PACE Recovery Program (Attachment 8)
 - ix. Innovation Technology Loan Fund (LIFT) (Attachment 9)
 - x. North Dakota Student Loan Trust Fund (Attachment 10)
 - xi. Clean Sustainable Energy Authority (CSEA) (Attachment 11)
 - xii. Water Infrastructure Revolving Loan Fund (Attachment 12)
 - xiii. Beginning Farmer Revolving Loan Fund (Attachment 13)
 - B. Presentation of Non-Confidential Meeting Minutes:
 - i. Finance and Credit Committee September 27, 2023 Meeting Minutes (Attachment 14)
 - ii. Advisory Board September 27, 2023 Meeting Minutes (Attachment 15)
 - C. Report of Bank of North Dakota Standard & Poor's Credit Rating (Attachment 16)
 - D. Other Bank of North Dakota Business

**Meeting Closed to the Public for Executive Session Pursuant to NDCC
6-09-35, 44-04-18.4, 44-04-19.1 and 44-04-19.2**

(approximately 9:30 am)

II. Bank of North Dakota Executive Session – Todd Steinwand, Kirby Evanger

- A. Presentation of Concentrations of Credit as of September 30, 2023 (Confidential Attachment 17)
- B. Presentation of Confidential Finance and Credit Committee Meeting Minutes September 27, 2023 (Confidential Attachment 18)
- C. Presentation of Confidential Advisory Board Meeting Minutes September 27, 2023 (Confidential Attachment 19)

(approximately 10:00 am)

III. Clean Sustainable Energy Program Confidential Business – Reice Haase
A. Grant Round 5 Confidentiality Requests (Confidential Attachment 20)

Meeting Returns to Public Session

IV. Formal actions taken in open session

(approximately 10:15 am)

V. Housing Finance Agency – Dave Flohr, Jennifer Henderson

- A. NDHFA Bond Trust Fund Performance Report (Attachment 21) – Victor Chaing and Ansel Caine, Caine Mitter & Associates
- B. Multi-family Programs Award Selection Report (Attachment 22) – Jennifer Henderson
- C. Other Housing Finance Agency Business

(approximately 11:15 am)

VI. Department of Mineral Resources – Lynn Helms

- A. **Consideration of the following cases:**
 - i. **Order 33073 for Case 30460** regarding the confiscation of all production-related equipment and salable oil at the Carpentier 1-16 well (File No. 9965), NENE Section 16, T.163N., R.91W., Portal Field, Burke County, ND (Attachment 30)
 - ii. **Order 33074 for Case 30461** regarding the confiscation of all production-related equipment and salable oil at the BP NORTH HAAS 1-4-20-163-82 well (File No. 30616), SENE Section 20, T.163N., R.82W., North Haas Field, Bottineau County, ND (Attachment 31)
 - iii. **Order 33075 for Case 30462** regarding the confiscation of all production-related equipment and salable oil at the BP NORTH HAAS 4-1-20-163-82 well (File No. 30638), NESE Section 20,

T.163N., R.82W., North Haas Field, Bottineau County, ND
(Attachment 32)

- iv. **Order 32941 for Case 30329** regarding amendments to the "General Rules and Regulations for the Conservation of Crude Oil and Natural Gas" codified as Article 43-02 North Dakota Administrative Code (Attachment 33)

B. Other Department of Mineral Resources Business

(approximately 11:45 am)

VII. State Energy Research Center – Tom Erickson, Tyler Hamman

- B. Presentation of State Energy Research Center Annual Report (Attachment 34)
- C. **Consideration of funding under Contract SERC 2019-01 Task 2 – Provide Prompt Expertise for North Dakota: CO₂ Enhanced Oil Recovery Incremental Oil Production Forecast, \$135,000** (Attachment 35)
- D. Other State Energy Research Center business

(approximately 12:00 pm)

VIII. North Dakota Renewable Energy Program – Reice Haase

- A. Presentation of Renewable Energy Program Project Management and Financial Report (Attachment 36)
- B. **Consideration of the following Renewable Energy Program Grant Round 52 applications:**
 - i. **R-052-A – Smart Holistic Zero Waste Utilization Paradigm (SHOWUP); Submitted by Surojit Gupta, UND; Total Project Costs: \$3,780,360; Recommended Funding: \$500,000** (Attachment 37)
 - ii. **R-052-B – Prairie Horizon Carbon Management Hub; Submitted by Kevin Connors, EERC; Total Project Costs: \$3,225,000; Amount Requested: \$100,000** (Attachment 38)
- C. Other Renewable Energy Program Business

(approximately 12:15 pm)

IX. North Dakota Lignite Research, Development and Marketing Program – Reice Haase, Mike Holmes

- A. Presentation of Lignite Research, Development and Marketing Program Project Management and Financial Report (Attachment 39) – Reice Haase
- B. **Consideration of the following Lignite Research, Development and Marketing Program Grant Round 103 application:**

i. LRC-103A: High-Value Products from Produced Water Mineralization via Reaction with Anthropogenic CO₂; Submitted by Semplastics EHC LLC; Total Project Costs: \$356,494; Recommended Funding: \$100,000 (Attachment 40)

- C. Report on completion of projects FY19-88-220 (Project Tundra FEED) and FY22-99-244 (Project Tundra CREST) (Attachment 41) – Andrew Sorbo, Vice President of Strategic Initiatives, Minnkota Power Cooperative
- D. Other Lignite Research, Development and Marketing Program Business

(approximately 12:45)

X. Office of the Industrial Commission – Karen Tyler, Reice Haase

- A. **Consideration for approval of October 31st, 2023 meeting minutes** (Attachment 42)
- B. **Consideration of 2024 Industrial Commission Meeting Schedule -** Reice Haase (Attachment 43)
- C. **Consideration of Compensation Recommendation** (Attachment 44) – Karen Tyler
- D. Other Office of the Industrial Commission Business

(approximately 1:00 pm)

XI. Adjournment

Next Meeting – December 18th, 2023, 1:00 pm
Governor's Conference Room, Bismarck, ND



Financial Statements
June 30, 2023 and 2022
Ag PACE Fund

AG PACE FUND

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Independent Auditor's Report

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Ag PACE Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 20, 2023

**AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021**

The management discussion and analysis of the Ag PACE Fund's financial performance provides an overview of the Ag PACE Fund's financial activities for the fiscal years ended June 30, 2023, 2022, and 2021. Please read it in conjunction with the financial statements of the Ag PACE Fund.

FINANCIAL HIGHLIGHTS:

The purpose of the Ag PACE (Agriculture Partnership in Assisting Community Expansion) Fund is to buy down the interest rate on loans to on-farm businesses. The program is available to businesses which may include nontraditional agriculture, manufacturing, processing, value-added processing, targeted service industries, or other activities calculated to provide income. Other activities include the financing of subsurface field tiling projects, the purchase of irrigation equipment, the purchase of equity shares issued by a new or expanding value-added processing business, the purchase of capital improvements for retention of livestock, or the purchase of capital improvements for dairy operations.

The Ag PACE Fund recognizes two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, and the Bank of North Dakota on behalf of the Ag PACE Fund.

The Ag PACE Fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of four percent (4%) and may not be less than one percent (1%). The maximum buydown amount per borrower may not exceed a biennium cap of \$20,000 with a lifetime cap of \$60,000. In order to receive buydown funds in excess of \$20,000, the applicant must have a net worth of less than \$1,500,000.

Ag PACE loans are made by a lead lender in participation with Bank of North Dakota. Currently there are 431 Ag PACE loans outstanding. The total principal outstanding is \$69,006,362, of which Bank of North Dakota participates in \$26,601,541. The remaining amount of buydown interest to be paid by this Fund on these loans is \$4,753,745. Of the total outstanding amount, there were 104 loans totaling \$18,034,208 made during the year ended June 30, 2023 in comparison to 75 loans totaling \$13,755,866 made during the year ended June 30, 2022 and 64 loans totaling \$9,981,161 made in the year ended June 30, 2021. Loans funded in the year ended June 30, 2023 will require \$1,990,325 in buydown interest during the life of the loans. There are 4 pending loan commitments totaling \$589,035 as of June 30, 2023.

As of June 30, 2023, there was (\$37,541) in interest buydown funds remaining for the 2021-2023 biennium.

\$ 5,500,000	Legislative Appropriation transfer from BND
1,000,000	Transfer from PACE
(3,000,000)	Transfer to Beginning Farmer
16,101	Carry Forward from Previous Allocation
73,444	Adjustments on Defaulted or Prepaid Loans
<u>(3,627,086)</u>	Committed and Funded
\$ (37,541)	

The 2021 North Dakota Legislature appropriated \$5,000,000 to the Ag PACE Fund from the Bank of North Dakota's undivided profits for the biennium beginning July 1, 2021 and ending June 30, 2023. This appropriation provides the Fund with adequate resources to meet its mission of providing buydown interest on loans. As of June 30, 2023, the Bank has transferred \$5,000,000 to the fund.

AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021

The 2023 North Dakota Legislature passed emergency measure House Bill 1199 that authorizes the Bank of North Dakota to transfer the sum of \$20,000,000 from the Bank's current earnings and undivided profits to PACE funds during the effective date of the act, and ending June 30, 2023. As of June 30, 2023, the Bank has transferred \$500,000 to the fund.

REQUIRED FINANCIAL STATEMENTS:

The Ag PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheets and the statements of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the Ag PACE Fund, with the differences between the two reported as fund balance. The statement of revenues, expenditures and changes in fund balance identifies the operating performance of the Ag PACE Fund for the year.

CONDENSED BALANCE SHEETS
JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash deposits	\$ 87,610	\$ 548,157	\$ 94,622
Cash deposits for buy downs committed	<u>4,753,745</u>	<u>3,877,217</u>	<u>3,209,316</u>
Total assets	<u>\$ 4,841,355</u>	<u>\$ 4,425,374</u>	<u>\$ 3,303,938</u>
LIABILITIES			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE			
	<u>4,841,355</u>	<u>4,425,374</u>	<u>3,303,938</u>
Total liabilities and fund balance	<u>\$ 4,841,355</u>	<u>\$ 4,425,374</u>	<u>\$ 3,303,938</u>

Cash Deposits for Buy Downs Committed

Cash deposits for buy downs committed represents reserved funds that are held by the Bank of North Dakota to buy down the interest for qualifying loans. Cash deposits for buy downs committed increased 23% in 2023 and 21% in 2022, due to the increase in volume from prior years.

Fund Balance

The Fund Balance represents funds available to the Ag PACE Fund. Fund balance increased by \$415,981, or 9%, from 2022 to 2023 primarily due to net transfers in to the Fund. Fund balance increased by \$1,121,436, or 34%, from 2021 to 2022 primarily due to net transfers in to the Fund.

AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES - Buydown interest	<u>1,084,019</u>	<u>878,564</u>	<u>908,059</u>
EXCESS OF EXPENDITURES OVER REVENUES	(1,084,019)	(878,564)	(908,059)
TRANSFERS IN	4,500,000	2,000,000	5,740,000
TRANSFERS OUT	<u>(3,000,000)</u>	<u>-</u>	<u>(5,080,000)</u>
NET CHANGE IN FUND BALANCE	415,981	1,121,436	(248,059)
FUND BALANCE, BEGINNING OF YEAR	<u>4,425,374</u>	<u>3,303,938</u>	<u>3,551,997</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,841,355</u>	<u>\$ 4,425,374</u>	<u>\$ 3,303,938</u>

Expenditures

The monies that are being paid to the Bank of North Dakota to buy down the interest rate for qualifying loans are paid in advance and are amortized over the life of the loans based upon the repayment terms of the individual qualifying loan. Interest expense increased \$205,455, or 23%, from 2022 to 2023 due to increase volume. Interest expense remained relatively flat from 2021 to 2022.

Transfers In/Out

During the year ended June 30, 2023, the Bank of North Dakota transferred \$3,500,000 to the Ag PACE Fund. Additional transfers of \$1,000,000 from PACE and \$3,000,000 to Beginning Farmer were made throughout the year.

During the year ended June 30, 2022, the Bank of North Dakota transferred \$2,000,000 to the Ag PACE Fund.

During the year ended June 30, 2021, the Bank of North Dakota transferred \$2,500,000 to the Ag PACE Fund. Ag PACE also received net transfers of \$1,740,000 from Beginning Farmer and transferred out \$3,580,000 to the PACE Fund.

**AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021**

ECONOMIC FACTORS AND FUTURE OUTLOOK

The 2019 North Dakota Legislature passed House Bill 1014 that authorized the Bank of North Dakota to transfer \$4,000,000 from the Bank's current earnings and undivided profits to the Ag PACE Fund during the biennium ending June 30, 2021. The Fund was also authorized to use up to \$1,000,000 of this funding to assist farmers and livestock producers that have suffered recent disaster-related losses. As of June 30, 2021, all funds were transferred.

The 2021 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$5,000,000 from the Bank's current earnings and undivided profits to the Ag PACE Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2023, the Bank has transferred \$5,000,000 to the fund.

The 2023 North Dakota Legislature passed emergency measure House Bill 1199 that authorizes the Bank of North Dakota to transfer the sum of \$20,000,000 from the Bank's current earnings and undivided profits to PACE funds during the effective date of the act, and ending June 30, 2023. As of June 30, 2023, the Bank has transferred \$500,000 to the fund.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$5,000,000 from the Bank's current earnings and undivided profits to the Ag PACE fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of June 30, 2023, no funds have been transferred.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

AG PACE FUND
BALANCE SHEETS
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 87,610	\$ 548,157
Cash deposits at the Bank of North Dakota for buydowns committed	<u>4,753,745</u>	<u>3,877,217</u>
Total assets	<u><u>\$ 4,841,355</u></u>	<u><u>\$ 4,425,374</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE		
Committed	<u>4,841,355</u>	<u>4,425,374</u>
Total fund balance	<u><u>4,841,355</u></u>	<u><u>4,425,374</u></u>
Total liabilities and fund balance	<u><u>\$ 4,841,355</u></u>	<u><u>\$ 4,425,374</u></u>

AG PACE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
REVENUES	\$ -	\$ -
EXPENDITURES		
Buydown interest	<u>1,084,019</u>	<u>878,564</u>
EXPENDITURES OVER REVENUES	(1,084,019)	(878,564)
OTHER FINANCING SOURCES		
Transfers in	4,500,000	2,000,000
Transfers out	<u>(3,000,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	415,981	1,121,436
FUND BALANCE, BEGINNING OF YEAR	<u>4,425,374</u>	<u>3,303,938</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,841,355</u>	<u>\$ 4,425,374</u>

AG PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.13 of the North Dakota Century Code (NDCC) established the Agriculture Partnership in Assisting Community Expansion (Ag PACE) Fund. The fund is revolving and all monies transferred into the fund, interest on fund monies and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota (an enterprise fund of the State of North Dakota) supervises and administers the Ag PACE Fund. The purpose of the Ag PACE Fund is to buy down the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loan.

Loans eligible for the buydown are loans to on-farm North Dakota businesses that are using the proceeds to purchase real property or equipment, expand their facility, acquire working capital or inventory, purchase irrigation equipment, purchase equity shares in a value-added ag-processing business or purchase capital improvements for retention of livestock or dairy operations. The loan funds cannot be used to refinance any existing debt.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Ag PACE Fund should include all component units over which the Ag PACE Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Ag PACE Fund.

Based on that criteria, no organizations were determined to be part of the reporting entity. The Ag PACE Fund is included as part of the primary government of the State of North Dakota's (State) reporting entity.

Accounting Standards

The Ag PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

The Ag PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

AG PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using the current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

Credit Related Financial Instruments

In the ordinary course of business, the Ag PACE Fund has entered into commitments to buy down interest rates on loans. Such financial instruments are recorded when they are funded.

Fund Balance Classifications

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Ag PACE Fund’s cash deposits at June 30, 2023 and 2022 was \$87,610 and \$548,157, respectively. Of the bank amounts, none were insured or collateralized with securities held by the entity or its agent in the entity’s name; none were collateralized with securities held by the counterparty’s trust department or agent in the entity’s name; and all were either collateralized with securities held by the counterparty or by its trust department or agent but not in the entity’s name, or collateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. The Fund’s deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 06-09-10).

NOTE 3 - CASH DEPOSITS AT BANK OF NORTH DAKOTA FOR BUYDOWNS COMMITTED

The monies that are being held by the Bank of North Dakota to buy down the interest rate for qualifying loans are paid in advance. Buydown interest is amortized over the life of the loans based upon the repayment terms of the individual qualifying loan.

AG PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 - RELATED PARTY TRANSACTIONS

The Ag PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the Ag PACE Fund on the cash accounts held at the Bank of North Dakota. Interest buydowns amortized into interest expense totaled \$1,084,019 and \$878,564 in 2023 and 2022, of which approximately 50% accrued to the Bank of North Dakota.

The Ag PACE Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buydowns on qualifying loans, which is included in “cash deposits for buydowns committed” on the balance sheet (see Note 3).

During the year ended June 30, 2023, the Bank of North Dakota transferred \$3,500,000 to the Ag PACE Fund. The Fund also received a transfer of \$1,000,000 from PACE and transferred out (\$3,000,000) to the Beginning Farmer during the year ended June 30, 2023. During the year ended June 30, 2022, the Bank of North Dakota transferred \$2,000,000 to the Ag PACE Fund.

The 2021 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$5,000,000 from the Bank’s current earnings and undivided profits to the Ag PACE Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2023, the Bank has transferred \$5,000,000 to the fund.

The 2023 North Dakota Legislature passed emergency measure House Bill 1199 that authorizes the Bank of North Dakota to transfer the sum of \$20,000,000 from the Bank’s current earnings and undivided profits to PACE funds during the effective date of the act, and ending June 30, 2023. As of June 30, 2023, the Bank has transferred \$500,000 to the fund.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$5,000,000 from the Bank’s current earnings and undivided profits to the Ag PACE fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of June 30, 2023, no funds have been transferred.

NOTE 5 - RISK MANAGEMENT

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

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

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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Ag PACE Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated September 20, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Ag PACE Fund’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Ag PACE Fund’s response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. Ag PACE Fund’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota
September 20, 2023

2023-001 – Improper Recording of Transfers, Material Weakness

Criteria: A good system of internal controls includes an appropriate review process to ensure that the appropriate transfers in and transfers out are being recorded.

Condition: As a result of our audit procedures, we discovered the improper recording of gross transfers in and transfers out. We identified the exclusion of a \$1,000,000 transfer in of BND'S undivided profits and the exclusion of the subsequent transfer out of the same amount.

Cause: The internal control process of the financial statement review failed to identify the exclusion of the transfers.

Effect: Exclusion of transfers could result in misstatements to the financial statements.

Recommendation: We recommend a separate review of all approved transfers in of BND's undivided profits and subsequent transfers out occur to ensure proper recording on the financial statements.

Views of responsible officials: Management of the Bank agrees with the finding. Transfers will be adjusted to properly reflect the current period. Going forward additional checks will be added to the transfer worksheet to verify the correct amounts are recorded.

**Ag PACE Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

As discussed in the schedule of findings and responses, there was one internal control deficiency identified as a result of the audit.

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

None

3. Identify any significant audit adjustments.

Transfers In and Transfers out both increased by \$1,000,000 as a result of the internal control deficiency discussed in the schedule of findings and responses.

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

None

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

None

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

None

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

None

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

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

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

Eide Sully LLP

Bismarck, North Dakota
September 20, 2023



September 20, 2023

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Ag PACE Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 20, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 20, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. There are no sensitive estimates affecting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Understatement of Transfers In	\$1,000,000	
Understatement of Transfers Out		\$1,000,000

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated September 20, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund's auditors.

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022
PACE Fund

PACE FUND

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Independent Auditor's Report

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the PACE Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund. The combining balance sheets and combining statements of revenues, expenditures, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheets and combining statements of revenues, expenditures, and changes in fund balance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota
September 20, 2023

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

The management's discussion and analysis of the PACE Fund's financial performance provides an overview of the PACE Fund's financial activities for the fiscal years ended June 30, 2023, 2022, and 2021. Please read it in conjunction with the financial statements of the PACE Fund.

FINANCIAL HIGHLIGHTS:

The purpose of the PACE (Partnership in Assisting Community Expansion) Fund is to assist North Dakota communities in expanding their economic base. The PACE Fund is available to all cities and counties throughout North Dakota for qualified projects. These loans are made by a lead financial institution in participation with Bank of North Dakota.

The 2021 Legislature approved the following appropriations and transfers from the identified PACE programs during the biennium July 1, 2021 through June 30, 2023:

PACE	\$ 24,500,000 1,171,162 <u>(12,700,000)</u> (600,000) (1,000,000) (500,000) (400,000) 403,755 <u>(7,557,749)</u> \$ 3,317,168	Legislative Appropriation transfer from BND Carry Forward from Previous Allocation Transfer to Flex PACE Transfer to Biofuels Transfer to Ag PACE Transfer to Affordable Housing PACE Transfer to Beginning Farmer Adjustments on Defaulted or Prepaid PACE Loans Committed and pending
Flex	\$ 20,000,000 1,846,985 13,200,000 750,000 1,496,044 <u>(33,167,306)</u> \$ 4,125,723	Legislative Appropriation transfer from BND Carry Forward from Previous Allocation Transfer from PACE Transfer from Biofuels Adjustments on Defaulted or Prepaid Flex PACE Loans Committed and pending
Biofuels	\$ 1,000,000 (210,975) 247,597 600,000 (750,000) 306,159 <u>(1,112,926)</u> \$ 79,855	Legislative Appropriation transfer from BND Carry Forward from Previous Allocation Transfer from Medical PACE Transfer from PACE Transfer to PACE Adjustments on Defaulted or Biofuels PACE Loans Committed and pending
Medical	\$ 0 (247,597) <u>247,597</u> \$ 0	Legislative Appropriation transfer from BND Transfer from Biofuels PACE Carry Forward from Previous Allocation

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

During the year ended June 30, 2023, the Bank of North Dakota transferred \$18,500,000 to PACE, \$750,000 to Biofuels PACE, and \$8,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$11,500,000 from PACE to Flex PACE, \$600,000 from PACE to Biofuels, \$1,000,000 from PACE to Ag PACE, \$500,000 from PACE to Affordable Housing, and \$400,000 from PACE to Beginning Farmer.

During the year ended June 30, 2022, the Bank of North Dakota transferred \$6,000,000 to PACE, \$250,000 to Biofuels PACE, and \$12,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$1,200,000 from PACE to Flex PACE and \$247,597 from Medical PACE to Biofuels.

During the year ended June 30, 2021, the Bank of North Dakota transferred \$9,000,000 to PACE and \$6,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$6,575,000 from PACE to Flex PACE, \$1,955,000 from PACE to Biofuels, and \$3,580,000 from Ag PACE to PACE.

The following is a recap of the PACE Fund activity for the fiscal years ended June 30, 2023, 2022, and 2021:

	PACE	Flex PACE	BioFuels PACE	Medical PACE
Current number of loans	92	1,048	76	3
Total outstanding principal	\$ 111,592,394	\$ 317,730,879	\$ 14,156,695	\$ 12,659,325
Loans funded in year ended June 30, 2021	6	155	7	1
Original loan amount funded	\$ 30,087,500	\$ 117,763,655	\$ 30,247,238	\$ 5,000,000
Buydown	\$ 696,722	\$ 11,141,053	\$ 2,186,083	\$ 2,200,000
Buydown not disbursed	\$ 937,154	\$ 3,114,253	\$ -	\$ -
Loans funded in year ended June 30, 2022	15	171	10	-
Original loan amount funded	\$ 43,610,602	\$ 114,640,116	\$ 2,473,109	\$ -
Buydown	\$ 4,024,973	\$ 14,360,062	\$ 612,867	\$ -
Buydown not disbursed	\$ 1,000,000	\$ 3,483,080	\$ -	\$ -
Loans funded in year ended June 30, 2023	11	184	2	-
Original loan amount funded	\$ 15,483,000	\$ 115,044,197	\$ 801,086	\$ -
Buydown	\$ 4,387,053	\$ 18,124,301	\$ 301,920	\$ -
Buydown not disbursed	\$ 500,000	\$ 2,269,233	\$ -	\$ -
Loans pending as of June 30, 2023	5	92	3	-
Loan commitments outstanding	\$ 57,537,487	\$ 112,164,793	\$ 7,471,086	\$ -
Buydown	\$ 1,632,159	\$ 9,894,044	\$ 598,641	\$ -
Available buydown as of June 30, 2023	\$ 3,317,168	\$ 4,125,723	\$ 79,855	\$ -

REQUIRED FINANCIAL STATEMENTS:

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balance. The balance sheet provides readers the assets and liabilities of the PACE Fund, with the differences between the two reported as fund balance. The statement of revenues, expenditures and changes in fund balance identifies the operating performances of the PACE Fund for the year.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

CONDENSED BALANCE SHEETS
JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash deposits	<u>\$ 82,622,198</u>	<u>\$ 72,596,170</u>	<u>\$ 67,344,192</u>
LIABILITIES			
Accrued interest payable	<u>\$ 1,357,417</u>	<u>\$ 1,116,230</u>	<u>\$ 1,020,800</u>
FUND BALANCE	<u>81,264,781</u>	<u>71,479,940</u>	<u>66,323,392</u>
Total liabilities and fund balance	<u>\$ 82,622,198</u>	<u>\$ 72,596,170</u>	<u>\$ 67,344,192</u>

Fund Balance

The Fund Balance represents funds available to the PACE program. Fund balance increased by \$9.8 million, or 14%, from 2022 to 2023, \$5.2 million, or 8%, from 2021 to 2022, and \$6.7 million, or 11%, from 2020 to 2021 primarily due to transfers from the Bank of North Dakota.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
REVENUES - Interest income	\$ 405,334	\$ 396,741	\$ 428,600
EXPENDITURES - Buydown interest	<u>16,470,493</u>	<u>13,490,193</u>	<u>12,346,953</u>
EXPENDITURES OVER REVENUES	(16,065,159)	(13,093,452)	(11,918,353)
NET TRANSFERS IN / OUT	<u>25,850,000</u>	<u>18,250,000</u>	<u>18,580,000</u>
NET CHANGE IN FUND BALANCE	9,784,841	5,156,548	6,661,647
FUND BALANCE, BEGINNING OF YEAR	<u>71,479,940</u>	<u>66,323,392</u>	<u>59,661,745</u>
FUND BALANCE, END OF YEAR	<u>\$ 81,264,781</u>	<u>\$ 71,479,940</u>	<u>\$ 66,323,392</u>

Expenses

Buydown interest expense is the Fund's share of the periodic payments made to the trustee to cover the interest rate buydown. Interest expense increased \$3.0 million, or 22%, from 2022 to 2023, increased \$1.1 million, or 9%, from 2021 to 2022, and increased \$1.2 million, or 10%, from 2020 to 2021 primarily due to an increase in Flex PACE activity.

Transfers In/Out

During the year ended June 30, 2023, the Bank of North Dakota transferred \$18,500,000 to PACE, \$750,000 to Biofuels PACE, and \$8,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$11,500,000 from PACE to Flex PACE, \$600,000 from PACE to Biofuels, \$1,000,000 from PACE to Ag PACE, \$500,000 from PACE to Affordable Housing, and \$400,000 from PACE to Beginning Farmer.

During the year ended June 30, 2022, the Bank of North Dakota transferred \$6,000,000 to PACE, \$250,000 to Biofuels PACE, and \$12,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$1,200,000 from PACE to Flex PACE and \$247,597 from Medical PACE to Biofuels.

During the year ended June 30, 2021, the Bank of North Dakota transferred \$9,000,000 to PACE and \$6,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$6,575,000 from PACE to Flex PACE, \$1,955,000 from PACE to Biofuels, and \$3,580,000 from Ag PACE to PACE.

PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

ECONOMIC FACTORS AND FUTURE OUTLOOK

The 2019 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$26,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2019, and ending June 30, 2021. As of June 30, 2021, all funds have been transferred.

The 2021 North Dakota Legislature passed Senate Bill 2058 which modified the classification of qualified North Dakota businesses for Biofuels by removing the loan type livestock operation and adding value-added operation. Value-added operation includes a producer that engages in dairy and milking or feeding of animals or poultry which enhances the value before sale into the marketplace.

The 2021 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$26,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2023, all funds have been transferred.

The 2023 North Dakota Legislature passed emergency measure House Bill 1199 that authorizes the Bank of North Dakota to transfer \$20,000,000 from the Bank's current earnings and undivided profits to the PACE fund during the effective date of the act, and ending June 30, 2023. As of June 30, 2023, \$18,500,000 has been transferred.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$39,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2023, and ending June 30, 2025. The demand for these funds is projected to remain steady. As of June 30, 2023, no funds have been transferred.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

PACE FUND
BALANCE SHEETS
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	<u>\$ 82,622,198</u>	<u>\$ 72,596,170</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accrued interest payable	<u>\$ 1,357,417</u>	<u>\$ 1,116,230</u>
FUND BALANCE		
Committed for interest buydown	78,944,083	70,701,820
Committed for future interest buydown	<u>2,320,698</u>	<u>778,120</u>
Total fund balance	<u>81,264,781</u>	<u>71,479,940</u>
Total liabilities and fund balance	<u>\$ 82,622,198</u>	<u>\$ 72,596,170</u>

PACE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
REVENUES		
Interest income	\$ 405,334	\$ 396,741
EXPENDITURES		
Buydown interest	<u>16,470,493</u>	<u>13,490,193</u>
EXPENDITURES OVER REVENUES	(16,065,159)	(13,093,452)
OTHER FINANCING SOURCES		
Transfers in, net of interfund transfers	27,250,000	18,250,000
Transfers out, net of interfund transfers	<u>(1,400,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	9,784,841	5,156,548
FUND BALANCE, BEGINNING OF YEAR	<u>71,479,940</u>	<u>66,323,392</u>
FUND BALANCE, END OF YEAR	<u>\$ 81,264,781</u>	<u>\$ 71,479,940</u>

PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.14 of the North Dakota Century Code (NDCC) established the Partnership in Assisting Community Expansion (PACE) Fund. The fund is revolving and all monies transferred into the fund, interest on fund monies and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota (an enterprise fund of the State of North Dakota) supervises and administers the PACE Fund. The purpose of the PACE Fund is to buy down the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loans. If the lenders approve the loan and there is evidence of the community's commitment and ability to fund its portion of the buydown, the fund's participation in the buydown is approved as part of BND's loan approval process.

The PACE programs recognize two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, the community (if required) and the Bank of North Dakota on behalf of the PACE Fund. The PACE fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of 5% and may not be less than 1%.

PACE Program

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank of North Dakota for participation from the PACE Fund. The funds for the community's portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the fund in the interest rate buydown may not exceed \$500,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

Flex PACE Program

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. The maximum amount from the fund in the interest rate buydown may not exceed \$500,000 per borrower in any biennium. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

PACE FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023 AND 2022

Biofuels PACE Program

Biofuels is established in N.D.C.C 17-03 to provide interest buydown to qualified North Dakota businesses which are defined as biodiesel, ethanol, and green diesel production facilities, and livestock operations. The maximum interest buydown per borrower for each eligible use is \$500,000 for a biodiesel, ethanol, or green diesel project, and \$250,000 for a livestock operation. The Biofuels PACE Loan Program does not require a community interest buydown match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

Medical PACE Program

The Medical PACE Program provides interest buydown to assist in the financing of critical access hospital medical infrastructure throughout North Dakota. The maximum interest buydown amount does not apply to the Medical PACE Program nor does the community percentage factor. Loan proceeds may be used to finance the purchase of land, the purchase of equipment, or to purchase, lease, erect, or improve any structure or facility to the extent that the governing board of the health care facility has authority to authorize such activity.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the PACE Fund should include all component units over which the PACE Fund exercises such aspects as (1) appointing a voting majority of an organization’s governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PACE Fund.

Based on the criteria of GASB Statement No. 61, no organizations were determined to be part of the reporting entity. The PACE Fund is included as part of the primary government of the State of North Dakota’s (State) reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

PACE FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023 AND 2022

Credit Related Financial Instruments

In the ordinary course of business, the PACE Fund has entered into commitments to buy down interest rates on loans. Such financial instruments are recorded when they are funded.

Fund Balance Classification

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the PACE Fund’s cash deposits at June 30, 2023 and 2022, was \$82,622,198 and \$72,596,170, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PACE Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits.

NOTE 3 – RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENTS

During the year ended June 30, 2023, the Bank of North Dakota transferred \$18,500,000 to PACE, \$750,000 to Biofuels PACE, and \$8,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$11,500,000 from PACE to Flex PACE, \$600,000 from PACE to Biofuels, \$1,000,000 from PACE to Ag PACE, \$500,000 from PACE to Affordable Housing, and \$400,000 from PACE to Beginning Farmer.

During the year ended June 30, 2022, the Bank of North Dakota transferred \$6,000,000 to PACE, \$250,000 to Biofuels PACE, and \$12,000,000 to Flex PACE from its current earnings and undivided profits. Additional transfers were made throughout the year, including \$1,200,000 from PACE to Flex PACE and \$247,597 from Medical PACE to Biofuels.

The PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Bank of North Dakota pays interest to the PACE Fund on monies that have been disbursed to the funding agency. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the PACE Fund on the cash accounts held at the Bank of North Dakota that have not been disbursed to the funding agency. Interest buydowns amortized into interest expense totaled \$16,470,493 and \$13,490,193 for the years ended June 30, 2023 and 2022, respectively.

PACE FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023 AND 2022

The 2021 North Dakota Legislature passed Senate Bill 2058 which modified the classification of qualified North Dakota businesses for Biofuels by removing the loan type livestock operation and adding value-added operation. Value-added operation includes a producer that engages in dairy and milking or feeding of animals or poultry which enhances the value before sale into the marketplace.

The 2021 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$26,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2022, all funds have been transferred.

The 2023 North Dakota Legislature passed emergency measure House Bill 1199 that authorizes the Bank of North Dakota to transfer \$20,000,000 from the Bank's current earnings and undivided profits to the PACE fund during the effective date of the act, and ending June 30, 2023. As of June 30, 2023, \$18,500,000 has been transferred.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$39,000,000 from the Bank's current earnings and undivided profits to the PACE fund and \$1,000,000 to the Biofuels PACE fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of June 30, 2023, no funds have been transferred.

NOTE 4 - RISK MANAGEMENT

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

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

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

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



Supplementary Information
June 30, 2023 and 2022

PACE Fund

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2023

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Medical PACE</u>	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash deposits at the Bank of North Dakota	\$ 14,375,601	\$ 57,729,818	\$ 3,915,536	\$ 6,601,243	\$ 82,622,198
Total assets	<u>\$ 14,375,601</u>	<u>\$ 57,729,818</u>	<u>\$ 3,915,536</u>	<u>\$ 6,601,243</u>	<u>\$ 82,622,198</u>
LIABILITIES AND FUND BALANCE					
CURRENT LIABILITIES					
Accrued interest payable	\$ 327,126	\$ 894,340	\$ 86,346	\$ 49,605	\$ 1,357,417
Total liabilities	<u>327,126</u>	<u>894,340</u>	<u>86,346</u>	<u>49,605</u>	<u>1,357,417</u>
FUND BALANCE					
Committed for legally contracted interest buydowns	11,773,057	56,835,478	3,783,910	6,551,638	78,944,083
Committed for future interest buydowns	<u>2,275,418</u>	<u>-</u>	<u>45,280</u>	<u>-</u>	<u>2,320,698</u>
Total fund balance	<u>14,048,475</u>	<u>56,835,478</u>	<u>3,829,190</u>	<u>6,551,638</u>	<u>81,264,781</u>
Total liabilities and fund balance	<u>\$ 14,375,601</u>	<u>\$ 57,729,818</u>	<u>\$ 3,915,536</u>	<u>\$ 6,601,243</u>	<u>\$ 82,622,198</u>

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2022

	PACE	Flex PACE	BioFuels PACE	Medical PACE	Total
ASSETS					
CURRENT ASSETS					
Cash deposits at the Bank of North Dakota	\$ 13,729,242	\$ 47,378,433	\$ 4,298,969	\$ 7,189,526	\$ 72,596,170
Total assets	<u>\$ 13,729,242</u>	<u>\$ 47,378,433</u>	<u>\$ 4,298,969</u>	<u>\$ 7,189,526</u>	<u>\$ 72,596,170</u>
LIABILITIES AND FUND BALANCE					
CURRENT LIABILITIES					
Accrued interest payable	\$ 164,905	\$ 766,017	\$ 134,894	\$ 50,414	\$ 1,116,230
Total liabilities	<u>164,905</u>	<u>766,017</u>	<u>134,894</u>	<u>50,414</u>	<u>1,116,230</u>
FUND BALANCE					
Committed for legally contracted interest buydowns	13,031,740	46,612,416	3,918,552	7,139,112	70,701,820
Committed for future interest buydowns	<u>532,597</u>	<u>-</u>	<u>245,523</u>	<u>-</u>	<u>778,120</u>
Total fund balance	<u>13,564,337</u>	<u>46,612,416</u>	<u>4,164,075</u>	<u>7,139,112</u>	<u>71,479,940</u>
Total liabilities and fund balance	<u>\$ 13,729,242</u>	<u>\$ 47,378,433</u>	<u>\$ 4,298,969</u>	<u>\$ 7,189,526</u>	<u>\$ 72,596,170</u>

PACE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2023

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Medical PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES						
Interest income	\$ 71,867	\$ 333,467	\$ -	\$ -	\$ -	\$ 405,334
EXPENDITURES						
Buydown interest	<u>4,087,730</u>	<u>10,860,404</u>	<u>934,885</u>	<u>587,474</u>	<u>-</u>	<u>16,470,493</u>
EXPENDITURES OVER REVENUES	(4,015,863)	(10,526,937)	(934,885)	(587,474)	-	(16,065,159)
OTHER FINANCING SOURCES						
Transfers in	19,900,000	20,750,000	1,350,000	-	(14,750,000)	27,250,000
Transfers out	<u>(15,400,000)</u>	<u>-</u>	<u>(750,000)</u>	<u>-</u>	<u>14,750,000</u>	<u>(1,400,000)</u>
NET CHANGE IN FUND BALANCE	484,137	10,223,063	(334,885)	(587,474)	-	9,784,841
FUND BALANCE, BEGINNING OF YEAR	<u>13,564,338</u>	<u>46,612,415</u>	<u>4,164,075</u>	<u>7,139,112</u>	<u>-</u>	<u>71,479,940</u>
FUND BALANCE, END OF YEAR	<u>\$ 14,048,475</u>	<u>\$ 56,835,478</u>	<u>\$ 3,829,190</u>	<u>\$ 6,551,637.78</u>	<u>\$ -</u>	<u>\$ 81,264,781</u>

PACE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2022

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Medical PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES						
Interest income	\$ 69,016	\$ 327,725	\$ -	\$ -	\$ -	\$ 396,741
EXPENDITURES						
Buydown interest	<u>1,984,083</u>	<u>9,247,435</u>	<u>1,643,222</u>	<u>615,453</u>	<u>-</u>	<u>13,490,193</u>
EXPENDITURES OVER REVENUES	(1,915,067)	(8,919,710)	(1,643,222)	(615,453)	-	(13,093,452)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,000,000	13,200,000	497,597	-	(1,447,597)	18,250,000
Transfers out	<u>(1,200,000)</u>	<u>-</u>	<u>-</u>	<u>(247,597)</u>	<u>1,447,597</u>	<u>(0)</u>
NET CHANGE IN FUND BALANCE	2,884,933	4,280,290	(1,145,625)	(863,050)	-	5,156,548
FUND BALANCE, BEGINNING OF YEAR	<u>10,679,405</u>	<u>42,332,125</u>	<u>5,309,700</u>	<u>8,002,162</u>	<u>-</u>	<u>66,323,392</u>
FUND BALANCE, END OF YEAR	<u>\$ 13,564,338</u>	<u>\$ 46,612,415</u>	<u>\$ 4,164,075</u>	<u>\$ 7,139,112</u>	<u>\$ -</u>	<u>\$ 71,479,940</u>



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the PACE Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 20, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
September 20, 2023



**PACE Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

None

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 20, 2023



September 20, 2023

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 20, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated September 20, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There are no sensitive estimates affecting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no corrected or uncorrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated September 20, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund's auditors.

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Medical Facility Infrastructure Loan Fund

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND

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Independent Auditor's Report

To the Governor of North Dakota
And the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Medical Facility Infrastructure Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2023 and 2022, and the changes in its financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

The management discussion and analysis of the Medical Facility Infrastructure Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023, 2022 and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Medical Facility Infrastructure Loan Fund was established by North Dakota Century Code Section 6-09-47 to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the state or improves access to existing nonprofit health care providers in the state.

There were no loans made by the Fund during the year ended June 30, 2023. There were no loans made by the Fund during the year ended June 30, 2022. There was one new loan for \$1,300 made by the Fund during the year ended June 30, 2021. As of June 30, 2023, there were eight loans outstanding totaling \$42,567 with an allowance for loan losses of \$1,182 for net loans of \$41,385.

There were two pending loan commitments totaling \$8,150 as of June 30, 2023.

Funds available for investment in loans for the year ended June 30, 2023 were \$9,322. The Fund is a Revolving Fund and as principal and interest payments are made on existing loans, additional funds become available for new loans.

REQUIRED FINANCIAL STATEMENTS:

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

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 9,322	\$ 7,043	\$ 4,795
Loans, net	41,385	43,427	45,446
Interest receivable	24	25	29
TOTAL ASSETS	<u>\$ 50,731</u>	<u>\$ 50,495</u>	<u>\$ 50,270</u>
LIABILITIES	<u>\$ 53</u>	<u>\$ 56</u>	<u>\$ 57</u>
NET POSITION - UNRESTRICTED	<u>50,678</u>	<u>50,439</u>	<u>50,213</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 50,731</u>	<u>\$ 50,495</u>	<u>\$ 50,270</u>

Loans

There were no new loans made during the fiscal year 2023. There were no new loans made during the fiscal year 2022. There was one new loan for \$1,300 made during the fiscal year 2021. As of June 30, 2023, there are eight loans outstanding totaling \$42,567 with an allowance for loan losses of \$1,182 for net loans of \$41,385.

Liabilities

The only liability of the Fund is an administrative fee payable to the Bank.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 435</u>	<u>\$ 455</u>	<u>\$ 463</u>
OPERATING EXPENSES	<u>224</u>	<u>234</u>	<u>237</u>
OPERATING INCOME	<u>211</u>	<u>221</u>	<u>226</u>
NONOPERATING REVENUES	<u>28</u>	<u>5</u>	<u>5</u>
CHANGE IN NET POSITION	<u>239</u>	<u>226</u>	<u>231</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>50,439</u>	<u>50,213</u>	<u>49,982</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 50,678</u></u>	<u><u>\$ 50,439</u></u>	<u><u>\$ 50,213</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. The interest rate established for the Fund has been set at one percent.

Expenses

Other expenses include an administration fee paid to the Bank in the amount of one-half percent of any outstanding loans and an independent audit of the financial records. For the years ended June 30, 2023, 2022, and 2021 administrative fees totaling \$218, \$228 and \$231 have been charged, respectively. There was no provision for loan loss for the years ended June 30, 2023, 2022, and 2021, respectively.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance and investments.

ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2023, there were two pending loan commitments totaling \$8,150. A recipient of a loan under the Fund must complete the financed construction project within twenty-four months of approval of the loan. The loan may not exceed the lesser of fifteen million dollars or seventy-five percent of the actual cost of the project, must have an interest rate equal to one percent, and must provide a payment schedule of no longer than twenty-five years.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,322	\$ 7,043
Loans, current portion	2,060	2,041
Interest receivable	24	25
	<u>11,406</u>	<u>9,109</u>
Total current assets		
Noncurrent Assets		
Loans, net of allowance for loan losses of \$1,182 in 2023 and 2022	<u>39,325</u>	<u>41,386</u>
Total assets	<u>\$ 50,731</u>	<u>\$ 50,495</u>
LIABILITIES		
Current Liabilities	<u>\$ 53</u>	<u>\$ 56</u>
NET POSITION		
Unrestricted	<u>50,678</u>	<u>50,439</u>
Total liabilities and net position	<u>\$ 50,731</u>	<u>\$ 50,495</u>

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 435</u>	<u>\$ 455</u>
OPERATING EXPENSES		
Administrative fees	218	228
Other expenses	<u>6</u>	<u>6</u>
OPERATING INCOME	211	221
NONOPERATING REVENUES		
Investment income	<u>28</u>	<u>5</u>
CHANGE IN NET POSITION	239	226
TOTAL NET POSITION, BEGINNING OF YEAR	<u>50,439</u>	<u>50,213</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 50,678</u></u>	<u><u>\$ 50,439</u></u>

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of administrative fees to Bank of North Dakota	\$ (221)	\$ (229)
Payment of other expenses	<u>(6)</u>	<u>(6)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(227)</u>	<u>(235)</u>
INVESTING ACTIVITIES		
Investment income received	28	5
Loan interest received	436	459
Proceeds from principal collections on loans	<u>2,042</u>	<u>2,019</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,506</u>	<u>2,483</u>
NET CHANGE IN CASH	2,279	2,248
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,043</u>	<u>4,795</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,322</u>	<u>\$ 7,043</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 211	\$ 221
Adjustments to reconcile operating income to net cash used for operating activities		
(Decrease) in due to Bank of North Dakota	(3)	(1)
Reclassification of items to other activities		
Interest income on loans	<u>(435)</u>	<u>(455)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (227)</u>	<u>\$ (235)</u>

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09-47 of the North Dakota Century Code (NDCC) established the Medical Facility Infrastructure Loan Fund (the Fund), effective May 3, 2013. The purpose of the Fund is to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the State or improves access to existing nonprofit health care providers in the state. The Bank of North Dakota administers the Fund and all loans made by the Fund. The Fund was established by a fifty million dollar loan from the State of North Dakota's Strategic Investment and Improvements Fund (SIIF).

The 2015 North Dakota Legislature passed Senate Bill 2012 that made the Fund a revolving fund and eliminated the repayment requirement to SIIF. All moneys transferred into the Fund, interest on moneys in the Fund, and collections of principal and interest on loans from the Fund are appropriated to the Bank for Fund administration on a continuing basis.

Loans made by the Fund may not exceed the lesser of fifteen million dollars or 75% of the actual cost of the project, must have an interest rate equal to 1%, and must have a repayment schedule of no longer than 25 years. A recipient of a loan under the Fund must complete the financed construction project within 24 months of approval of the loan.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

All of the Fund's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the construction and operation of medical facilities.

Cash and Cash Equivalents

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

Loans

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

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 2 - DEPOSITS

Deposits

The carrying value and bank balance of the Fund's cash deposits at June 30, 2023 and June 30, 2022 was \$9,322 and \$7,043, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

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

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 2,060	\$ 2,041
Loans, noncurrent portion	40,507	42,568
Total loans	42,567	44,609
Allowance for loan losses	1,182	1,182
Total loans, net	<u>\$ 41,385</u>	<u>\$ 43,427</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 46,628
Loan advances	-
Principal collections	(2,019)
Balance, June 30, 2022	44,609
Loan advances	-
Principal collections	(2,042)
Balance, June 30, 2023	<u>\$ 42,567</u>

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for loan losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 1,182	\$ 1,182
Provision for loan losses	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,182</u>	<u>\$ 1,182</u>

There were no impaired loans as of June 30, 2023. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash and time deposits are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the Fund \$218 and \$228 for administrative fees during the years ended June 30, 2023 and 2022, respectively, of which the Fund owed the Bank \$53 as of June 30, 2023 and \$56 as of June 30, 2022.

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to loan loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were two pending loan commitments totaling \$8,150 as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 6 - RISK MANAGEMENT

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

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

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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Medical Facility Infrastructure Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated September 21, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023



**Medical Facility Infrastructure Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 21, 2023



September 21, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Medical Facility Infrastructure Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 21, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated July 29, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 21, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Fund's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 21, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Rebuilders Permanent Loan Fund

REBUILDERS PERMANENT LOAN FUND

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Independent Auditor's Report

To the Governor of North Dakota
And the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Rebuilders Permanent Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position, and where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota
October 16, 2023

REBUILDERS PERMANENT LOAN FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023, 2022, AND 2021

The management discussion and analysis of the Rebuilders Permanent Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023, 2022 and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The North Dakota Legislature appropriated \$50,000,000 for the Rebuilders Loan Fund during its Special Session held in November 2011. The Industrial Commission approved the Rebuilders Loan Guidelines on November 21, 2011. The first \$30,000,000 for this Fund was transferred from Bank of North Dakota's undivided profits. The remaining \$20,000,000 was funded from the General Fund.

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

The North Dakota Legislature amended the Rebuilders Loan Fund in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There was no deferral of principal and interest payments for a loan for nonowner-occupied property. Applications were not accepted after September 30, 2013. A supplemental loan up to \$20,000 may have been made to a homeowner who had received an initial loan under certain conditions. Supplemental loan applications were not accepted after December 31, 2013.

After June 30, 2013, repayments to the Fund shall be transferred to replenish \$30,000,000 of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the \$30,000,000 used to replenish the Bank's undivided profits.

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

The North Dakota Legislature amended the Fund in its 2021 Session to create the Rebuilders Permanent Loan Fund. This Fund merged the SARS-CoV-2 Small Employer Loan Fund with the Rebuilders Loan Fund. All assets and liabilities of the Small Employer Loan Fund were transferred to the Fund as of July 1, 2021.

The Small Employer Loan Fund was established by Bank of North Dakota to assist local financial institutions and certified development corporations in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 pandemic. The Fund is available to North Dakota businesses with an employee count of 10 full-time equivalents or less. Eligible borrowers may use the proceeds to support working capital needs, recurring expenses and replenish inventory. Additionally, the funds may be used to term out COVID-19 related bridge loans or credit card debt originated on or after March 13, 2020, not to exceed 20% of the maximum loan amount.

The Bank of North Dakota administers the loan Fund. The Bank deducts a one-half percent service fee for administering the Fund for the Bank and originating financial institutions.

REBUILDERS PERMANENT LOAN FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023, 2022, AND 2021

There were no loans made by the Fund in the fiscal year 2023. There were no loans made by the Fund in the fiscal year 2022. There were three new loans made by the Fund for \$180,000 during the fiscal year 2021. There were no loans pending as of June 30, 2023.

There are currently 1,732 loans outstanding. As of June 30, 2023, the gross amount of outstanding loans is \$34,919,556 with an allowance for credit losses of \$3,088,000 for net loans of \$31,831,556. As of June 30, 2022, the gross amount of outstanding loans is \$41,386,945 with an allowance for credit losses of \$3,662,000 for net loans of \$37,724,945. This includes \$28,014,714 of loans transferred from Small Employer Loan Fund. As of June 30, 2021, the gross amount of outstanding loans is \$20,989,729 with an allowance for credit losses of \$2,099,000 for net loans of \$18,890,729.

REQUIRED FINANCIAL STATEMENTS:

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

REBUILDERS PERMANENT LOAN FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF NET POSITION JUNE 30, 2023, 2022, AND 2021

	(In Thousands)		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
CURRENT ASSETS			
Cash deposits	\$ 10,307	\$ 6,555	\$ 443
Loans, current portion	4,223	4,425	1,707
Interest receivable	29	37	33
Total current assets	<u>14,559</u>	<u>11,017</u>	<u>2,183</u>
NONCURRENT ASSETS			
Loans, noncurrent portion, net	<u>27,609</u>	<u>33,301</u>	<u>17,183</u>
Total noncurrent assets	<u>27,609</u>	<u>33,301</u>	<u>17,183</u>
Total assets	<u>\$ 42,168</u>	<u>\$ 44,318</u>	<u>\$ 19,366</u>
CURRENT LIABILITIES	\$ 35	\$ 526	\$ 1,720
NONCURRENT LIABILITIES	<u>13,720</u>	<u>15,651</u>	<u>17,509</u>
NET POSITION - UNRESTRICTED	<u>28,413</u>	<u>28,141</u>	<u>137</u>
Total liabilities and net position	<u>\$ 42,168</u>	<u>\$ 44,318</u>	<u>\$ 19,366</u>

Cash Deposits

Cash deposits increased \$3,751,563 from June 30, 2022 to June 30, 2023 primarily due to principal repayments from borrowers. Cash deposits increased \$6,112,770 from June 30, 2021 to June 30, 2022 primarily due to the transfer of \$1,807,992 from the Small Employer Loan Fund and additional payments received on loans transferred from Small Employer Loan Fund. Cash deposits increased \$108,796 from June 30, 2020 to June 30, 2021 primarily due to principal repayments from borrowers.

REBUILDERS PERMANENT LOAN FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023, 2022, AND 2021

Loans

There were no loans made during the fiscal year 2023. There were no loans made during the fiscal year 2022, with \$23,814,801 transferred from the Small Employer Loan Fund. There were three loans made during the fiscal year 2021 totaling \$180,000. There were 38 delinquent loans as of June 30, 2023. There were \$432,370 in loan charge-offs and recoveries of \$5,179 during 2023.

Noncurrent Liabilities

Noncurrent liabilities decreased \$1.9 million from June 30, 2022 to June 30, 2023, decreased \$3.1 million from June 30, 2021 to June 30, 2022, and decreased \$2.4 million from June 30, 2020 to June 30, 2021.

Net Position

North Dakota Legislative action in 2013 required that loan repayments received by the Fund first be used to replenish the Bank's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. Therefore, net position of the Fund is minimal and intended for payments of legal expenses and an annual audit of the Fund. Net position increased in 2022 by \$28,004,008 primarily due to the transfer of fund balance from the Small Employer Loan Fund.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2023, 2022 AND 2021

	(In Thousands)		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	\$ 377	\$ 441	\$ 227
OPERATING EXPENSES	<u>134</u>	<u>(20)</u>	<u>(54)</u>
OPERATING INCOME	243	461	281
NONOPERATING INCOME/(LOSS)	29	(28)	(317)
TRANSFERS IN	-	27,571	-
CHANGE IN NET POSITION	272	28,004	(36)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,141</u>	<u>137</u>	<u>173</u>
TOTAL NET POSITION END OF YEAR	<u>\$ 28,413</u>	<u>\$ 28,141</u>	<u>\$ 137</u>

Revenue

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

REBUILDERS PERMANENT LOAN FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023, 2022, AND 2021

Expenses

The provision for credit loss was (146,808), (\$345,198), and (\$288,411) for the years ended June 30, 2023, 2022, and 2021, respectively.

Service fee expenses of \$154,581, \$180,740, and \$225,106 have been recorded during the years ended June 30, 2023, 2022, and 2021, respectively.

Administrative fee expenses of \$110,238 and \$130,452 were recorded during the years ended June 30, 2023 and 2022, respectively. No administrative fee expenses were recorded during the year ended June 30, 2021.

Other expenses are for the independent audit of the financial records and reimbursement to the Bank for legal expenses for the Fund.

Non-Operating Income/(Loss)

During 2023, non-operating income consisted of interest accrued on cash. During 2022 and 2021, non-operating loss consisted primarily of loss relating to reinstatement of debt for the increase in the liability to the State of North Dakota General Fund.

ECONOMIC FACTORS AND FUTURE OUTLOOK

North Dakota Legislative action in 2013 required that loan repayments received by the Fund first be used to replenish the Bank of North Dakota's undivided profits and then required all other loan repayments received to be transferred to the State General Fund. As of June 30, 2023, the Fund owed the Bank \$0 and owed the General Fund \$13,720,102.

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

Effective July 1, 2021, House Bill 1187 of the 2021 Legislative Session states the Bank shall transfer any outstanding loans and other moneys in the rebuilders home loan and rebuilder loan Funds to the rebuilders permanent loan fund. Principal and interest payments from the rebuilders and rebuilders home loans that are transferred to the rebuilders permanent loan fund must be used to replenish the Bank's undivided profits and to repay the state general fund pursuant to section 3 of chapter 83 of the 2013 Session Laws and subsection 5 of section 20 of chapter 14 of the 2019 Session Laws. House Bill 1187 also states loans made as part of the small employer loan fund established by the industrial commission to provide assistance during the SARS-CoV-2 pandemic shall be transferred to the rebuilders permanent loan fund established under this Act. As of July 1, 2021, all transfers have been completed.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

REBUILDERS PERMANENT LOAN FUND

STATEMENTS OF NET POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 10,307,071	\$ 6,555,508
Loans, current portion	4,222,765	4,424,788
Interest receivable	29,562	37,264
	<u>14,559,398</u>	<u>11,017,560</u>
Total current assets		
NONCURRENT ASSETS		
Loans, net of allowance for credit losses of \$3,088,000 in 2023 and \$3,662,000 in 2022	27,608,791	33,300,157
	<u>27,608,791</u>	<u>33,300,157</u>
Total noncurrent assets		
Total assets	<u>\$ 42,168,189</u>	<u>\$ 44,317,717</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to the Bank of North Dakota	\$ 29,252	\$ 519,851
Service fee payable	5,403	6,513
	<u>34,655</u>	<u>526,364</u>
Total current liabilities		
NONCURRENT LIABILITIES		
Due to the State of North Dakota General Fund	13,720,102	15,650,134
	<u>13,720,102</u>	<u>15,650,134</u>
Total noncurrent liabilities		
Total liabilities	<u>13,754,757</u>	<u>16,176,498</u>
NET POSITION - UNRESTRICTED		
	<u>28,413,432</u>	<u>28,141,219</u>
Total liabilities and net position	<u>\$ 42,168,189</u>	<u>\$ 44,317,717</u>

REBUILDERS PERMANENT LOAN FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 377,617</u>	<u>\$ 440,991</u>
OPERATING EXPENSES		
Administrative Fee	110,238	130,452
Loan Fee	-	1
Service fees	154,581	180,740
Other expenses	16,271	13,471
Provision for credit loss	<u>(146,808)</u>	<u>(345,198)</u>
TOTAL OPERATING EXPENSES	<u>134,282</u>	<u>(20,534)</u>
OPERATING INCOME	243,335	461,525
NONOPERATING REVENUES		
Investment Income	<u>28,878</u>	<u>3,048</u>
NONOPERATING EXPENSES		
Reinstatement of debt expense - State General Fund	<u>-</u>	<u>(30,650)</u>
NONOPERATING INCOME/(LOSS)	<u>28,878</u>	<u>(27,602)</u>
TRANSFERS IN	-	27,570,085
CHANGE IN NET POSITION	272,213	28,004,008
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,141,219</u>	<u>137,211</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 28,413,432</u>	<u>\$ 28,141,219</u>

REBUILDERS PERMANENT LOAN FUND

STATEMENTS OF CASHFLOWS

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Administrative fees paid to Bank of North Dakota	\$ (115,073)	\$ (135,714)
Loan servicing fees refunded from (paid to) Bank of North Dakota	1,727	(610)
Service fees paid to Bank of North Dakota	(84,831)	(90,368)
Service fees paid to other banks	(75,048)	(88,909)
Payment of other expenses	(16,272)	(13,471)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(289,497)</u>	<u>(329,072)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Small Employer Loan Fund	-	1,807,992
Payment on Due to the General Fund	(1,930,032)	-
Payment on Due to the Bank of North Dakota	(481,625)	(3,116,039)
NET CASH USED FOR NON-CAPITAL FUNDING ACTIVITIES	<u>(2,411,657)</u>	<u>(1,308,047)</u>
INVESTING ACTIVITIES		
Investment income received	28,878	3,048
Loan interest received	385,318	462,145
Loan advances	-	(150)
Proceeds from principal collections on loans	6,038,521	7,284,846
NET CASH FROM INVESTING ACTIVITIES	<u>6,452,717</u>	<u>7,749,889</u>
NET CHANGE IN CASH	3,751,563	6,112,770
CASH, BEGINNING OF YEAR	<u>6,555,508</u>	<u>442,738</u>
CASH, END OF YEAR	<u>\$ 10,307,071</u>	<u>\$ 6,555,508</u>
RECONCILIATION OF OPERATING INCOME		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 243,335	\$ 461,525
Adjustments to reconcile operating income to net cash used for operating activities		
Adjustment for provision for credit loss	(146,808)	(345,198)
Adjustment for previous year recovery	1,727	-
Change in administrative fee payable to BND	(4,836)	(5,261)
Change in loan servicing fees paid to BND	-	(610)
Change in service fee payable to outside lender	(1,160)	2,728
Change in service fee payable to BND	(4,138)	(1,265)
Reclassification of items to other activities		
Interest income on loans	(377,617)	(440,991)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (289,497)</u>	<u>\$ (329,072)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Reinstatement of debt expense - State General Fund	<u>\$ -</u>	<u>\$ 30,650</u>
Transfer in of non-cash net assets from Small Employer Loan Fund	<u>\$ -</u>	<u>\$ 26,196,016</u>

See Notes to Financial Statements

REBUILDERS PERMANENT LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

The North Dakota Legislature amended the Rebuilders Loan Fund in its 2013 Session to include the rebuilding of nonowner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There was no deferral of principal and interest payments for a loan for nonowner-occupied property. A supplemental loan up to \$20,000 may have been made to a homeowner who had received an initial loan under certain conditions. Applications were not accepted after September 30, 2013. Supplemental loan applications were not accepted after December 31, 2013.

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

After June 30, 2013, repayments to the Fund shall be transferred to replenish \$30,000,000 of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the \$30,000,000 used to replenish the Bank's undivided profits.

The North Dakota Legislature amended the Fund in its 2019 Session to provide up to \$3,750,000 from the principal payments received to North Dakota residents affected by river flooding in the state in the winter and spring of 2019. The application period was open until September 30, 2020.

The North Dakota Legislature amended the Fund in its 2021 Session to create the Rebuilders Permanent Loan Fund. This Fund merged the SARS-CoV-2 Small Employer Loan Fund with the Rebuilders Loan Fund. All assets and liabilities of the Small Employer Loan Fund were transferred to the Fund as of July 1, 2021.

The Small Employer Loan Fund was established by Bank of North Dakota to assist local financial institutions and certified development corporations in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 pandemic. The Fund is available to North Dakota businesses with an employee count of 10 full-time equivalents or less. Eligible borrowers may use the proceeds to support working capital needs, recurring expenses and replenish inventory. Additionally, the funds may be used to term out COVID-19 related bridge loans or credit card debt originated on or after March 13, 2020, not to exceed 20% of the maximum loan amount.

The Bank administers the loan Fund and transfers the money appropriated for this Fund from its undivided profits. The Bank deducts a service fee for administering the Fund for the Bank and originating financial institutions.

REBUILDERS PERMANENT LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization’s governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

Based on that, no organizations were determined to be part of the reporting entity. The Fund is included as part of the primary government in the State of North Dakota’s reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Fund follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

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

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net position is segregated into (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses, and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital, and related financing activities, and investing activities.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

REBUILDERS PERMANENT LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance less an allowance for credit losses. Interest income on loans is accrued at a specific rate of 1% on the unpaid principal balance.

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

Allowance for Credit Losses

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

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

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

Loan Origination Fees

The Fund pays a loan origination fee of \$250 or \$500 per loan. Loan origination fees are expensed as incurred.

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

REBUILDERS PERMANENT LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Fund’s cash deposits as of June 30, 2023 and 2022 was \$10,307,071 and \$6,555,508, respectively. Of the bank amounts, none were covered by depository insurance, and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

A description of Fund loans is included under “Nature of Operations” in Note 1. A summary of the balances of loans are as follows:

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 4,222,765	\$ 4,424,788
Loans, noncurrent portion	<u>30,696,791</u>	<u>36,962,157</u>
Total loans	34,919,556	41,386,945
Allowance for credit losses	<u>(3,088,000)</u>	<u>(3,662,000)</u>
Total loans, net	<u>\$ 31,831,556</u>	<u>\$ 37,724,945</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 20,989,729
Loans transferred in	28,014,714
Loan advances	150
Principal collections	(7,284,846)
Recoveries/(Charge-offs)	<u>(332,802)</u>
Balance, June 30, 2022	41,386,945
Loans transferred in	-
Loan advances	-
Principal collections	(6,038,521)
Recoveries/(Charge-offs)	<u>(428,868)</u>
Balance, June 30, 2023	<u>\$ 34,919,556</u>

(continued on next page)

REBUILDERS PERMANENT LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Changes in allowance for credit losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 3,662,000	\$ 2,099,000
Allowance for Credit Losses Transferred in	-	2,241,000
Provision for credit losses	(146,809)	(345,198)
Charge-offs	(432,370)	(333,353)
Recoveries	5,179	551
	<u>5,179</u>	<u>551</u>
Balance, end of year	<u>\$ 3,088,000</u>	<u>\$ 3,662,000</u>

There were no impaired loans as of June 30, 2023 and 2022. There were five loans on nonaccrual status as of June 30, 2023 and three loans as of June 30, 2022. There were 38 loans 90 days or more past due as of June 30, 2023 and 56 loans 90 days or more past due as of June 30, 2022.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

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

During 2013, the North Dakota Legislature revised the Fund to require that after June 30, 2013, loan repayments received by the Fund shall be transferred back to the Bank to replenish \$30,000,000 of the Bank's undivided profits. As such, the Fund owed the Bank \$0 and \$481,625 as of June 30, 2023 and 2022, respectively. In addition, the legislation required that after the Bank's undivided profits are replenished, any repayments received by the Fund shall be transferred to the State Treasurer for deposit in the State General Fund after payment of Fund expenses. As such, the Fund also owed the General Fund \$13,720,102 and \$15,650,134 as of June 30, 2023 and 2022, respectively. During the year ended June 30, 2023, the decrease in the liability to the General Fund reflects repayment from the Fund to the General Fund. During the year ended June 30, 2022, the increase in the liability to the General Fund was reflected as reinstatement of debt expense in the amount of \$30,650.

The Bank charged the Fund for operating expenses totaling \$5,271 and \$1,471 for the years ended June 30, 2023 and 2022, respectively.

The Bank charged the Fund servicing fees totaling \$80,694 and \$89,103 for the years ended June 30, 2023 and 2022, respectively. The Fund owed the Bank \$3,419 and \$7,557 as of June 30, 2023, and 2022, respectively.

The Bank charged the Fund administrative fees totaling \$110,238 and \$130,452 for the years ended June 30, 2023 and 2022, respectively. The Fund owed the Bank \$25,833 and \$30,669 as of June 30, 2023 and 2022, respectively.

REBUILDERS PERMANENT LOAN FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Effective July 1, 2021, House Bill 1187 of the 2021 Legislative Session states the Bank shall transfer any outstanding loans and other moneys in the rebuilders home loan and rebuilders loan Funds to the rebuilders permanent loan fund. Principal and interest payments from the rebuilders and rebuilders home loans that are transferred to the rebuilders permanent loan fund must be used to replenish the Bank's current earnings and undivided profits and to repay the state general fund pursuant to section 3 of chapter 83 of the 2013 Session Laws and subsection 5 of section 20 of chapter 14 of the 2019 Session Laws. House Bill 1187 also states loans made as part of the small employer loan fund established by the industrial commission to provide assistance during the SARS-CoV-2 pandemic shall be transferred to the rebuilders permanent loan Fund established under this Act. As of July 1, 2021, the Fund transferred in \$27,570,085 of net assets from the small employer loan fund.

NOTE 5 - RISK MANAGEMENT

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

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

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

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



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rebuilders Permanent Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated October 16, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
October 16, 2023



**Rebuilders Permanent Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Sully LLP

Bismarck, North Dakota
October 16, 2023



October 16, 2023

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Rebuilders Permanent Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated October 16, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you date October 16, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fundis included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the 's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no corrected or uncorrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 16, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Addiction Counselor Internship Loan Program

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM

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Independent Auditor's Report

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Addiction Counselor Internship Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Program, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Controller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of North Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Program are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2023 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 20, 2023

**ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

The management discussion and analysis of the Addiction Counselor Internship Loan Program's (the Program) financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2023, 2022, and 2021. Please read it in conjunction with the financial statements of the Program.

FINANCIAL HIGHLIGHTS:

The Addiction Counselor Internship Loan Program was established by North Dakota Century Code Section 43-45-05.4 for the purpose of providing loans to qualified individuals participating in a paid or unpaid internship at a licensed substance abuse treatment facility in North Dakota in order to obtain licensure as an addiction counselor.

There were no loans made during the year ended June 30, 2023, one loan totaling \$7,500 made during the year ended June 30, 2022, and three loans totaling \$22,500 made during the year ended June 30, 2021. There were no pending applications as of June 30, 2023. At June 30, 2023, the gross amount of outstanding loans was \$72,369 with an allowance for loan losses of \$3,601 for net loans of \$68,768.

Funds available for investment in loans for the year ended June 30, 2023 were \$116,820.

REQUIRED FINANCIAL STATEMENTS:

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

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 116,820	\$ 105,698	\$ 95,922
Loans, net	68,768	78,066	91,596
Interest receivable	923	1,370	616
	<u>186,511</u>	<u>185,134</u>	<u>188,134</u>
TOTAL ASSETS	<u>\$ 186,511</u>	<u>\$ 185,134</u>	<u>\$ 188,134</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION - UNRESTRICTED	<u>186,511</u>	<u>185,134</u>	<u>188,134</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 186,511</u>	<u>\$ 185,134</u>	<u>\$ 188,134</u>

Loans

There were no loans made during the fiscal year 2023, there was one loan totaling \$7,500 made during the fiscal year 2022, and three loans totaling \$22,500 made during the fiscal year 2021. As of June 30, 2023, there are fourteen loans outstanding totaling \$72,369 with an allowance for loan losses of \$3,601 for net loans of \$68,768.

Net Position

Net position of the Program was \$186,511, \$185,134 and \$188,134 as of June 30, 2023, 2022 and 2021, respectively.

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 4,364</u>	<u>\$ 2,938</u>	<u>\$ 3,229</u>
OPERATING EXPENSES	<u>3,348</u>	<u>6,010</u>	<u>5,950</u>
OPERATING INCOME/(LOSS)	<u>1,016</u>	<u>(3,072)</u>	<u>(2,721)</u>
NONOPERATING REVENUES	<u>361</u>	<u>72</u>	<u>90</u>
CHANGE IN NET POSITION	<u>1,377</u>	<u>(3,000)</u>	<u>(2,631)</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>185,134</u>	<u>188,134</u>	<u>190,765</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 186,511</u></u>	<u><u>\$ 185,134</u></u>	<u><u>\$ 188,134</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. The interest rate on outstanding loans accrues at the Bank of North Dakota's current base rate but may not exceed an annual rate percentage of 6%. Bank of North Dakota's current base rate at June 30, 2023 was 8.25%.

Expenses

There was (\$2,834) provision for loan loss during the year ended June 30, 2023. There was no provision for loan loss during the years ended June 30, 2022, and 2021. The reversal in provision for the year ended June 30, 2023 was the result of a decreasing loan portfolio. The only other expense of the Program is an annual independent audit of the financial records.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash and cash equivalents.

**ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2023, there were no pending loan applications. Loans made by the Program may not exceed seven thousand five hundred dollars, must accrue at the Bank's current base rate, but may not exceed six percent annually, and must have a repayment schedule of no longer than ten years.

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

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

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 116,820	\$ 105,698
Loans, current portion	13,699	3,938
Interest receivable	923	1,370
	<u>131,442</u>	<u>111,006</u>
Total current assets		
Noncurrent Assets		
Loans, net of allowance for loan losses of \$3,601 in 2023 and \$6,435 in 2022	<u>55,069</u>	<u>74,128</u>
	<u>\$ 186,511</u>	<u>\$ 185,134</u>
LIABILITIES		
	<u>\$ -</u>	<u>\$ -</u>
NET POSITION		
Unrestricted	<u>186,511</u>	<u>185,134</u>
	<u>\$ 186,511</u>	<u>\$ 185,134</u>
Total liabilities and net position		

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 4,364</u>	<u>\$ 2,938</u>
OPERATING EXPENSES		
Audit expenses	6,182	6,010
Provision for loan loss	<u>(2,834)</u>	<u>-</u>
OPERATING INCOME/(LOSS)	1,016	(3,072)
NONOPERATING REVENUES		
Investment income	<u>361</u>	<u>72</u>
CHANGE IN NET POSITION	1,377	(3,000)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>185,134</u>	<u>188,134</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 186,511</u></u>	<u><u>\$ 185,134</u></u>

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of audit expenses	\$ (6,182)	\$ (6,010)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(6,182)</u>	<u>(6,010)</u>
INVESTING ACTIVITIES		
Investment income received	361	72
Loan interest received	3,268	1,717
Proceeds from principal collections on loans	13,675	21,497
Loans advanced	-	(7,500)
NET CASH FROM INVESTING ACTIVITIES	<u>17,304</u>	<u>15,786</u>
NET CHANGE IN CASH	11,122	9,776
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>105,698</u>	<u>95,922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 116,820</u>	<u>\$ 105,698</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income/(loss)	\$ 1,016	\$ (3,072)
Adjustments to reconcile operating income/(loss) to net cash used for operating activities		
Adjustment for provision for loan loss	(2,834)	-
Reclassification of items to other activities		
Interest income on loans	<u>(4,364)</u>	<u>(2,938)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (6,182)</u>	<u>\$ (6,010)</u>

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 43-45-05.4 of the North Dakota Century Code (NDCC) established the Addiction Counselor Internship Loan Program (the Program), effective July 1, 2015. The purpose of the Program is to provide loans to qualified individuals participating in a paid or unpaid internship at a licensed substance abuse treatment facility in North Dakota in order to obtain licensure as an addiction counselor. The Bank of North Dakota administers the Program and all loans made by the Program.

The Program was established by a two hundred thousand dollar transfer from the North Dakota Student Loan Trust. All monies transferred into the fund, interest upon monies in the fund, and payments to the fund of principal and interest on loans are appropriated to the Bank of North Dakota for Program administration on a continuing basis.

Loans made by the Program may not exceed seven thousand five hundred dollars, must accrue at the Bank of North Dakota's current base rate, but may not exceed six percent, and must have a repayment schedule of no longer than ten years.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Program should include all component units over which the Program exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Program.

Based on that criteria, no organizations were determined to be part of the Program. The Program is included as part of the primary government in the State of North Dakota's reporting.

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at Bank of North Dakota's current base rate, not to exceed six percent, on the unpaid principal balance.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The carrying value and bank balance of the Program’s cash deposits at June 30, 2023 and 2022 was \$116,820 and \$105,698, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

A description of Program loans is included under “Nature of Operations” in Note 1. A summary of the balances of the loans are as follows:

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 13,699	\$ 3,938
Loans, noncurrent portion	<u>58,670</u>	<u>80,563</u>
Total loans	72,369	84,501
Allowance for loan losses	<u>(3,601)</u>	<u>(6,435)</u>
Total loans, net	<u>\$ 68,768</u>	<u>\$ 78,066</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 98,031
Loan advances	7,500
Capitalized interest	467
Principal Collections	<u>(21,497)</u>
Balance, June 30, 2022	84,501
Loan advances	-
Capitalized interest	1,543
Principal Collections	<u>(13,675)</u>
Balance, June 30, 2023	<u>\$ 72,369</u>

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Changes in the allowance for loan losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 6,435	\$ 6,435
Provision for loan losses	<u>(2,834)</u>	<u>-</u>
Balance, end of year	<u>\$ 3,601</u>	<u>\$ 6,435</u>

There were no impaired loans as of June 30, 2023. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Program is supervised and administered by the Bank of North Dakota. All monies transferred into the Program, interest upon monies in the Program, and payments to the Program of principal and interest on loans are appropriated to the Bank for Program administration on a continuing basis. All cash accounts are deposited with the Bank of North Dakota.

NOTE 5 - LOAN COMMITMENTS

The Program is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Program's exposure to credit loss is represented by the contractual amount of these commitments. The Program follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were no pending loan applications as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6 - RISK MANAGEMENT

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

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

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

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



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Addiction Counselor Internship Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Program’s basic financial statements, and have issued our report thereon dated September 20, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 20, 2023



**Addiction Counselor Internship Loan Program
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 20, 2023



September 20, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Addiction Counselor Internship Loan Program (the Program) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 20, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 20, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Program's financial statements relate to: Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 20, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Program's auditors.

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Infrastructure Revolving Loan Fund

INFRASTRUCTURE REVOLVING LOAN FUND

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Governor of North Dakota
And the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2023 and 2022, and the changes in its financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

The management discussion and analysis of the Infrastructure Revolving Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023, 2022 and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Infrastructure Revolving Loan Fund was established by North Dakota Century Code Section 6-09-49 for the purpose of providing loans to political subdivisions for essential infrastructure projects. Eligible infrastructure projects may include new or replacement of existing water treatment plants, wastewater treatment plants, sewer lines and water lines, and storm water and transportation infrastructure, including curb and gutter construction.

There were eighteen loans originated for \$37,571 with \$16,360 advanced on these loans during the year ended June 30, 2023. There were twelve loans originated for \$39,445 with \$7,941 advanced on these loans during the year ended June 30, 2022. There were twelve loans originated for \$17,271 with \$7,079 funds advanced on these loans during the year ended June 30, 2021. As of June 30, 2023, there were eighty-eight loans outstanding for \$136,998 with an allowance for credit losses of \$1,712, for net loans of \$135,286.

There were fifteen loan commitments for \$124,838 as of June 30, 2023.

Funds available for investment in loans as of June 30, 2023 were \$20,647.

REQUIRED FINANCIAL STATEMENTS:

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

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 20,647	\$ 20,804	\$ 24,772
Loans, net	135,286	109,025	101,369
Interest receivable	842	777	750
TOTAL ASSETS	<u>\$ 156,775</u>	<u>\$ 130,606</u>	<u>\$ 126,891</u>
LIABILITIES			
	<u>\$ 165</u>	<u>\$ 138</u>	<u>\$ 128</u>
NET POSITION - UNRESTRICTED	<u>156,610</u>	<u>130,468</u>	<u>126,763</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 156,775</u>	<u>\$ 130,606</u>	<u>\$ 126,891</u>

Loans

There were eighteen loans made during the fiscal year 2023, twelve loans made during the fiscal year 2022, twelve loans made during the fiscal year 2021. As of June 30, 2023, there are eighty-eight loans outstanding totaling \$136,998 with an allowance for credit losses of \$1,712 for net loans of \$135,286.

Net Position

All monies transferred to the Fund, interest upon monies in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursements. Net position of the Fund at June 30, 2023, 2022 and 2021 was \$156,610, \$130,468, and \$126,763, respectively.

INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022 AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 2,420</u>	<u>\$ 2,196</u>	<u>\$ 2,094</u>
OPERATING EXPENSES	<u>951</u>	<u>648</u>	<u>583</u>
OPERATING INCOME	1,469	1,548	1,511
NONOPERATING REVENUES			
Investment income	<u>75</u>	<u>13</u>	<u>22</u>
INCOME BEFORE TRANSFERS	1,544	1,561	1,533
TRANSFERS			
Transfers from Legacy Bond Fund	<u>24,598</u>	<u>2,144</u>	<u>-</u>
NET TRANSFERS	<u>24,598</u>	<u>2,144</u>	<u>-</u>
CHANGE IN NET POSITION	26,142	3,705	1,533
TOTAL NET POSITION, BEGINNING OF YEAR	<u>130,468</u>	<u>126,763</u>	<u>125,230</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 156,610</u>	<u>\$ 130,468</u>	<u>\$ 126,763</u>

Revenue

Operating revenue is from interest accrued on loans outstanding. A loan made from the Fund must have an interest rate that does not exceed two percent.

Expenses

The provision for credit loss was \$332 for the year ended June 30, 2023, \$95 for the year ended June 30, 2022, and \$55 for the year ended June 30, 2021. The provision in 2023, 2022 and 2021 was due to loan volume and provides an allowance for potential credit losses. Other expenses include an administration fee paid to Bank of North Dakota in the amount of one-half percent of any outstanding loans and an independent audit of the financial records. For the years ended June 30, 2023, 2022 and 2021 administration fees totaling \$613, \$547, and \$522 have been charged, respectively.

**INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022 AND 2021
(Dollars in Thousands)**

Nonoperating Revenue

Nonoperating revenue represents interest earned on cash and cash equivalents.

Transfers

For the year ended June 30, 2023, the Fund received \$24,598 in transfers from Legacy Bond Fund. For the year ended June 30, 2022, the Fund received \$2,144 in transfers from Legacy Bond Fund. For the year ended June 30, 2021, the Fund did not receive any transfers.

ECONOMIC FACTORS AND FUTURE OUTLOOK

There were fifteen outstanding commitments to extend credit for \$124,838, as of June 30, 2023. The term of the construction and permanent financing period may not exceed 30 years. Loans made by the Fund may not exceed fifteen million dollars and must have an interest rate that does not exceed two percent. House Bill 1443 of the 2015 Legislative Session authorized the Bank of North Dakota to transfer up to \$100,000, or so much of the sum as may be necessary. As of June 30, 2023, the Fund has up to \$52,000 available for transfer.

House Bill 1014 of the 2019 Legislative Session authorized the Office of Management and Budget to transfer up to \$40,000 during the biennium beginning July 1, 2019, and ending June 30, 2021 from the Strategic Investment and Improvements Fund contingent of any oil and gas tax revenues exceeding \$755,000 during the period August 1, 2017, through July 31, 2019. In August of 2019, the Strategic Investment and Improvements Fund transferred \$25,138 into the Fund.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. Effective July 1, 2021 all notes made must have an interest rate that does not exceed two percent per year. As of June 30, 2023, the Fund has transferred \$26,742.

Senate Bill 2330 of the 2023 Legislative Session authorized up to \$150,000 of Legacy funds to be used to purchase loans from the Infrastructure Revolving Loan Fund.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 20,647	\$ 20,804
Loans, current portion	11,792	5,992
Interest receivable	842	777
	<u>33,281</u>	<u>27,573</u>
Noncurrent Assets		
Loans, net of allowance for credit losses of \$1,712 in 2023 and \$1,380 in 2022	<u>123,494</u>	<u>103,033</u>
Total assets	<u>\$ 156,775</u>	<u>\$ 130,606</u>
LIABILITIES		
Current Liabilities	<u>\$ 165</u>	<u>\$ 138</u>
NET POSITION		
Unrestricted	<u>156,610</u>	<u>130,468</u>
Total liabilities and net position	<u>\$ 156,775</u>	<u>\$ 130,606</u>

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 2,420</u>	<u>\$ 2,196</u>
OPERATING EXPENSES		
Administrative fees	613	547
Other expenses	6	6
Provision for credit loss	<u>332</u>	<u>95</u>
Total Operating Expenses	<u>951</u>	<u>648</u>
OPERATING INCOME	1,469	1,548
NONOPERATING REVENUES		
Investment income	<u>75</u>	<u>13</u>
INCOME BEFORE TRANSFERS	1,544	1,561
TRANSFERS IN		
Transfers from Legacy Bond Fund	<u>24,598</u>	<u>2,144</u>
NET TRANSFERS IN	<u>24,598</u>	<u>2,144</u>
CHANGE IN NET POSITION	26,142	3,705
TOTAL NET POSITION, BEGINNING OF YEAR	<u>130,468</u>	<u>126,763</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 156,610</u>	<u>\$ 130,468</u>

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of administrative fees to Bank of North Dakota	\$ (586)	\$ (537)
Payment of other expenses	<u>(6)</u>	<u>(6)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(592)</u>	<u>(543)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Legacy Bond Fund	<u>24,598</u>	<u>2,144</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>24,598</u>	<u>2,144</u>
INVESTING ACTIVITIES		
Investment income received	75	13
Loan interest received	2,355	2,169
Loans advanced	(34,644)	(14,584)
Proceeds from principal collections on loans	<u>8,051</u>	<u>6,833</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(24,163)</u>	<u>(5,569)</u>
NET CHANGE IN CASH	(157)	(3,968)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>20,804</u>	<u>24,772</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 20,647</u>	<u>\$ 20,804</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 1,469	\$ 1,548
Adjustments to reconcile operating income to net cash used for operating activities		
Adjustment for provision for credit loss	332	95
Increase in due to Bank of North Dakota	27	10
Reclassification of items to other activities		
Interest income on loans	<u>(2,420)</u>	<u>(2,196)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (592)</u>	<u>\$ (543)</u>

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09-49 of the North Dakota Century Code (NDCC) established the Infrastructure Revolving Loan Fund (the Fund), effective July 1, 2015. The purpose of the Fund is to provide loans to political subdivisions for essential infrastructure projects. Eligible infrastructure projects may include new or replacement of existing water treatment plants, wastewater treatment plants, sewer lines and water lines, storm water and transportation infrastructure, including curb and gutter construction, and other infrastructure needs as established by the Bank of North Dakota. The Bank administers the Fund and all loans made by the Fund.

House Bill 1443 of the 2015 Legislative Session authorized a transfer of \$50,000 from the Strategic Investment and Improvements Fund (SIIF) to the Fund. It also authorized the Bank of North Dakota to transfer the sum of \$100,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the Fund. All monies transferred to the Fund, interest upon monies in the fund, and payments to the fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursement. As of June 30, 2023, the fund has up to \$52,000 available for transfer.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. As of June 30, 2023, the fund transferred \$26,742.

Loans made by the Fund may not exceed fifteen million dollars, must have an interest rate that does not exceed two percent, and must have a repayment schedule that does not exceed thirty years. Effective July 1, 2021, loans made by the Fund must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent as enacted by House Bill 1431 of the 2021 Legislative Session.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Basis of Accounting and Measurement Focus

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

Use of Estimates

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

Significant Group Concentrations of Credit Risk

All of the Fund's business is with political subdivisions within the State of North Dakota. Concentrations of credit risk are present in the Fund.

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate not to exceed two percent on the unpaid principal balance. Effective July 1, 2021 all notes made must have an interest rate that does not exceed two percent per year.

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

Allowance for Credit Losses

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

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

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The value and bank balance of the Fund’s cash deposits at June 30, 2023 and 2022 was \$20,647 and \$20,804, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

A description of Fund loans is included under “Nature of Operations” in Note 1. A summary of the balances of loans are as follows:

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 11,792	\$ 5,992
Loans, noncurrent portion	<u>125,206</u>	<u>104,413</u>
Total loans	136,998	110,405
Allowance for credit losses	<u>1,712</u>	<u>1,380</u>
Total loans, net	<u>\$ 135,286</u>	<u>\$ 109,025</u>

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 102,654
Loan advances	14,584
Principal collections	<u>(6,833)</u>
Balance, June 30, 2022	110,405
Loan advances	34,644
Principal collections	<u>(8,051)</u>
Balance, June 30, 2023	<u><u>\$ 136,998</u></u>

Changes in allowance for credit losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 1,380	\$ 1,285
Provision for credit losses	<u>332</u>	<u>95</u>
Balance, end of year	<u><u>\$ 1,712</u></u>	<u><u>\$ 1,380</u></u>

NOTE 4 - RELATED PARTY TRANSACTIONS

House Bill 1443 of the 2015 Legislative Session created the Fund and authorized a transfer from the Strategic Investment and Improvements Fund of \$50,000 as well as a transfer of up to \$100,000, or so much of the sum as may be necessary from the Bank of North Dakota. As of June 30, 2023, the Bank of North Dakota has transferred \$48,000 to the Fund.

House Bill 1014 of the 2019 Legislative Session authorized the Office of Management and Budget to transfer up to \$40,000 during the biennium beginning July 1, 2019, and ending June 30, 2021 from the Strategic Investment and Improvements Fund contingent of any oil and gas tax revenues exceeding \$755,000 during the period August 1, 2017, through July 31, 2019. In August of 2019, the Strategic Investment and Improvements Fund transferred \$25,138 into the Fund.

House Bill 1431 of the 2021 Legislative Session authorized Legacy Bond Fund proceeds issued by the Public Finance Authority to be appropriated to the Bank of North Dakota for allocation of up to \$50,000 to the Fund during the biennium beginning July 1, 2021, and ending June 30, 2023. Effective July 1, 2021 all notes made must have an interest rate starting at two percent per year and increasing by one percent every five years, up to a maximum rate of five percent. As of June 30, 2023, the Fund transferred \$26,742.

INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the program \$613 and \$547 for administration fees during the year ended June 30, 2023 and 2022, respectively, of which the Fund owed the Bank \$165 as of June 30, 2023 and \$138 as of June 30, 2022.

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were fifteen outstanding commitments for \$124,838 to extend credit as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

NOTE 6 - RISK MANAGEMENT

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

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

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

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



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 21, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023



**Infrastructure Revolving Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 21, 2023



September 21, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Infrastructure Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 21, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated July 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 21, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Fund's financial statements relates to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 21, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund's auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

School Construction Assistance Revolving Loan Fund

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND

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Independent Auditor's Report

To the Governor of North Dakota
And the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the School Construction Assistance Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of North Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota
September 11, 2023

**SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)**

The management discussion and analysis of the School Construction Assistance Revolving Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ending June 30, 2023, 2022, and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The School Construction Assistance Revolving Loan Fund was established by North Dakota Century Code Section 15.1-36 for the purpose of providing low-interest school construction loans. The board of a school district may propose a new construction or remodeling project with a cost of at least one million dollars and an expected utilization of at least thirty years. Loan applications are reviewed and approved by the superintendent of public instruction.

There were five loans originated for \$40,870 with \$17,820 advanced on these loans as well as \$16,955 in loan purchases from the Bank during the year ended June 30, 2023. There were no loans originated with \$15,158 in loan purchases from the Bank during the year ended June 30, 2022. There were no loans originated with \$22,137 in loan purchases from the Bank during the year ended June 30, 2021.

There were six loan commitments for \$43,420 as of June 30, 2023.

Funds available for investment in loans as of June 30, 2023 were \$38,104.

REQUIRED FINANCIAL STATEMENTS:

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

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 38,104	\$ 50,227	\$ 47,077
Interest receivable	1,564	1,517	1,396
Loans, net	<u>274,002</u>	<u>258,425</u>	<u>259,221</u>
TOTAL ASSETS	<u>\$ 313,670</u>	<u>\$ 310,169</u>	<u>\$ 307,694</u>
LIABILITIES			
	<u>\$ 349</u>	<u>\$ 332</u>	<u>\$ 333</u>
NET POSITION - UNRESTRICTED	<u>313,321</u>	<u>309,837</u>	<u>307,361</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 313,670</u>	<u>\$ 310,169</u>	<u>\$ 307,694</u>

Cash and Cash Equivalents

Cash and cash equivalents represent funds available for investment in loans. The decrease from 2022 to 2023 is primarily due to loan advances and transferred loans. The increase from 2021 to 2022 is primarily due to loan payments received.

Loans

As of June 30, 2023, there were 56 loans outstanding totaling \$276,770 with an allowance for loan losses of \$2,768 for net loans of \$274,002. As of June 30, 2022, there were 48 loans outstanding totaling \$261,043 with an allowance for loan losses of \$2,618 for net loans of \$258,425. As June 30, 2021, there were 45 loans outstanding totaling \$261,839 with an allowance for loan losses of \$2,618 for net loans of \$259,221.

Net Position

All monies transferred to the Fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursements. Net position of the Fund as of June 30, 2023, 2022, and 2021 was \$313,321, \$309,837, and \$307,361 respectively.

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 4,888</u>	<u>\$ 4,843</u>	<u>\$ 4,656</u>
OPERATING EXPENSES	<u>1,492</u>	<u>1,346</u>	<u>1,508</u>
OPERATING INCOME	<u>3,396</u>	<u>3,497</u>	<u>3,148</u>
NONOPERATING REVENUES	<u>127</u>	<u>29</u>	<u>48</u>
INCOME BEFORE TRANSFERS	<u>3,523</u>	<u>3,526</u>	<u>3,196</u>
NET TRANSFERS (OUT)	<u>(39)</u>	<u>(1,050)</u>	<u>(1,300)</u>
CHANGE IN NET POSITION	<u>3,484</u>	<u>2,476</u>	<u>1,896</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>309,837</u>	<u>307,361</u>	<u>305,465</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 313,321</u></u>	<u><u>\$ 309,837</u></u>	<u><u>\$ 307,361</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. A loan made from the Fund must have an interest rate that does not exceed two percent.

Expenses

Administrative expenses were \$1,334, \$1,338, and \$1,295 for the years ended June 30, 2023, 2022, and 2021, respectively. This expense is paid to the Bank of North Dakota for administration of the Fund in the amount of one-half percent of outstanding loans. The provision for loan loss was \$150, \$0, and \$205 for the years ended June 30, 2023, 2022, and 2021, respectively. Other expenses include an independent audit of the financial records.

Nonoperating Revenue

Nonoperating revenue represents interest earned on cash and cash equivalents.

**SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)**

Transfers

The 2019 North Dakota Legislature passed Senate Bill 2214 to transfer the sum of \$75,000 from the Foundation Aid Stabilization fund. During the year ended June 30, 2020, the Fund received \$75,000. In addition, Bank of North Dakota may utilize funding from School Construction Assistance Revolving Loan Fund to repay up to \$5,000, or so much of the sum as may be necessary, to provide the Bank of North Dakota with interest rate buydowns associated with the Bank's on-balance-sheet school construction loans. During the years ended June 30, 2023, 2022, and 2021, the Fund transferred a total of \$39, \$1,050, and, \$1,300, respectively, to the Bank.

ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2023, there were six outstanding commitments for \$43,420. The maximum loan amount to which a school district is entitled is \$10,000 with a term of twenty years and interest rate not to exceed two percent.

The 2021 North Dakota Legislature passed Senate Bill 2014 that allows Bank of North Dakota to utilize funding from School Construction Assistance Revolving Loan Fund to repay up to \$2,500, or so much of the sum as may be necessary, to provide the Bank of North Dakota with interest rate buydowns associated with the Bank's on-balance-sheet school construction loans. In addition, subject to sufficient funding being available for loans to local school districts Bank of North Dakota may utilize funding from the school construction assistance revolving loan fund to repay a portion of the outstanding principal balance of the loans issued under section 15.1-36-06 for the purpose of transferring a portion of the loans issued under that section from the Bank of North Dakota to the school assistance revolving loan fund, for the biennium beginning July 1, 2021, and ending June 30, 2023.

The 2023 North Dakota Legislature passed Senate Bill 2284 to transfer the sum of \$75,000 from the Foundation Aid Stabilization Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. The full \$75,000 was transferred in July of 2023.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 38,104	\$ 50,227
Loans, current portion	23,696	19,674
Interest receivable	<u>1,564</u>	<u>1,517</u>
Total current assets	<u>63,364</u>	<u>71,418</u>
Noncurrent Assets		
Loans, net of allowance for loan losses of \$2,768 in 2023 and \$2,618 in 2022	<u>250,306</u>	<u>238,751</u>
Total noncurrent assets	<u>250,306</u>	<u>238,751</u>
Total assets	<u>313,670</u>	<u>310,169</u>
Total assets and deferred outflows	<u>\$ 313,670</u>	<u>\$ 310,169</u>
LIABILITIES	<u>\$ 349</u>	<u>\$ 332</u>
NET POSITION		
Unrestricted	<u>313,321</u>	<u>309,837</u>
Total liabilities and net position	<u>\$ 313,670</u>	<u>\$ 310,169</u>

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 4,888</u>	<u>\$ 4,843</u>
OPERATING EXPENSES		
Administrative fees	1,334	1,338
Other expenses	8	8
Provision for loan loss	<u>150</u>	<u>-</u>
OPERATING INCOME	3,396	3,497
NONOPERATING REVENUES		
Investment income	<u>127</u>	<u>29</u>
INCOME BEFORE TRANSFERS	3,523	3,526
NET TRANSFERS (OUT)		
Transfer to Bank of North Dakota	<u>(39)</u>	<u>(1,050)</u>
CHANGE IN NET POSITION	3,484	2,476
TOTAL NET POSITION, BEGINNING OF YEAR	<u>309,837</u>	<u>307,361</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 313,321</u>	<u>\$ 309,837</u>

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of administrative fees to the Bank of North Dakota	\$ (1,317)	\$ (1,339)
Payment of other expenses	<u>(8)</u>	<u>(8)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(1,325)</u>	<u>(1,347)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Bank of North Dakota	<u>(39)</u>	<u>(1,050)</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>(39)</u>	<u>(1,050)</u>
INVESTING ACTIVITIES		
Investment income received	127	29
Loan interest received	4,841	4,722
Proceeds from principal collections on loans	19,048	16,214
Loans advanced	(17,820)	(260)
Purchase of loans from Bank of North Dakota	<u>(16,955)</u>	<u>(15,158)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(10,759)</u>	<u>5,547</u>
NET CHANGE IN CASH	(12,123)	3,150
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>50,227</u>	<u>47,077</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 38,104</u></u>	<u><u>\$ 50,227</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 3,396	\$ 3,497
Adjustments to reconcile operating income to net cash used from operating activities		
Adjustment for provision for loan loss	150	-
Increase/(Decrease) in due to Bank of North Dakota	17	(1)
Reclassification of items to other activities		
Interest income on loans	<u>(4,888)</u>	<u>(4,843)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (1,325)</u></u>	<u><u>\$ (1,347)</u></u>

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 15.1-36 of the North Dakota Century Code established the School Construction Assistance Revolving Loan Fund (the Fund). The purpose of the Fund is to provide low-interest school construction loans. The board of a school district may propose a new construction or remodeling project with a cost of at least one million dollars and an expected utilization of at least thirty years. Loan applications are reviewed and approved by the superintendent of public instruction. The Bank administers the Fund and all loans made by the Fund.

All moneys transferred to the Fund, interest upon moneys in the Fund, and repayments of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and loan disbursement.

Loans made by the Fund may not exceed ten million dollars, must have an interest rate that does not exceed two percent, and must have a repayment schedule that does not exceed twenty years.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

All of the Fund's business is with political subdivisions within the State of North Dakota. Concentrations of credit risk are present in the Fund.

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate not to exceed two percent on the unpaid principal balance.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The carrying value and bank balance of the Fund's cash deposits was \$38,104, and \$50,227 at June 30, 2023 and 2022, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

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

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 23,696	\$ 19,674
Loans, noncurrent portion	<u>253,074</u>	<u>241,369</u>
Total loans	276,770	261,043
Allowance for loan losses	<u>2,768</u>	<u>2,618</u>
Total loans, net	<u><u>\$ 274,002</u></u>	<u><u>\$ 258,425</u></u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 261,839
Purchase from Bank of North Dakota	15,158
Loan advances	260
Principal collections	<u>(16,214)</u>
Balance, June 30, 2022	261,043
Purchase from Bank of North Dakota	16,955
Loan advances	17,820
Principal collections	<u>(19,048)</u>
Balance, June 30, 2023	<u><u>\$ 276,770</u></u>

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for loan losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of period	\$ 2,618	\$ 2,618
Provision for loan losses	<u>150</u>	<u>-</u>
Balance, end of year	<u>\$ 2,768</u>	<u>\$ 2,618</u>

There were no impaired loans, no loans on nonaccrual status, and no loans 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. Administration fees of \$1,334 and \$1,338 were charged during 2023 and 2022, of which \$349 and \$332 was due to the Bank as of June 30, 2023 and 2022, respectively.

Senate Bill 2214 of the 2019 North Dakota Legislature states that Office of Management and Budget shall transfer the sum of \$75,000 from the Foundation Aid Stabilization Fund to the Fund during the period beginning July 1, 2019 and ending June 30, 2021. As of June 30, 2020, the Foundation Aid Stabilization Fund has transferred in the total of \$75,000. In addition, Bank of North Dakota may utilize up to \$5,000, or so much of the sum as may be necessary, of funding from School Construction Assistance Revolving Loan Fund to provide the Bank with interest rate buydowns. During the years ended June 30, 2023 and 2022, the Fund transferred a total of \$39 and \$1,050, respectively, to the Bank. Bank of North Dakota may also utilize funding from the Fund to purchase existing loans originated by the Bank under Section 15.1-36-06. As of June 30, 2023 and 2022, the Fund purchased, \$16,955 and \$15,158, respectively, from Bank of North Dakota.

Senate Bill 2014 of the 2021 North Dakota Legislature states that Bank of North Dakota may utilize up to \$2,500, or so much of the sum as may be necessary, of funding from School Construction Assistance Revolving Loan Fund to provide the Bank with interest rate buydowns. In addition, subject to sufficient funding being available for loans to local school districts Bank of North Dakota may utilize funding from the school construction assistance revolving loan fund to repay a portion of the outstanding principal balance of the loans issued under section 15.1-36-06 for the purpose of transferring a portion of the loans issued under that section from the Bank of North Dakota to the school assistance revolving loan fund, for the biennium beginning July 1, 2021, and ending June 30, 2023.

The 2023 North Dakota Legislature passed Senate Bill 2284 to transfer the sum of \$75,000 from the Foundation Aid Stabilization Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. The full \$75,000 was transferred in July of 2023.

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to loan loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were six outstanding commitments for \$43,420 as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

NOTE 6 - RISK MANAGEMENT

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

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

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

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



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the School Construction Assistance Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 11, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 11, 2023



**School Construction Assistance Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 11, 2023



September 11, 2023

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of School Construction Assistance Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 11, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 11, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Fund's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 11, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck North Dakota



Financial Statements
June 30, 2023 and 2022
COVID-19 PACE Recovery Program

COVID-19 PACE Recovery Program

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Independent Auditor's Report

To the Government of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the COVID-19 PACE Loan Program (the Program), a special revenue fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Program, as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Program are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2023 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Bismarck, North Dakota
September 5, 2023

**COVID-19 PACE RECOVERY PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

FINANCIAL HIGHLIGHTS:

The purpose of the COVID-19 PACE Recovery Program is to assist local financial institutions in providing low interest loans and grants to support North Dakota businesses in their economic recovery due to negative impacts from the COVID-19 pandemic.

The North Dakota Emergency Commission approved federal Coronavirus Aid, Relief, and Economic Security (CARES) Act dollars of up to \$200 million to be utilized for interest rate buydowns in May of 2020. In September of 2020, the North Dakota Budget Commission reduced the original commitment of \$200 million to \$50 million to be used between the two programs, CPR I and CPR II. An additional \$20 million was approved to be used between the CPR I and CPR II programs in October of 2020 by the North Dakota Budget Commission. Applications were accepted through November 30, 2020 for both the CPR I and CPR II programs. The program received \$0, \$6,100, and \$63,604,824 in the years ended June 30, 2023, 2022, and June 30, 2021, respectively.

COVID-19 PACE Recovery Program loans are made by a lead lender in participation with Bank of North Dakota. There were no loans originated during the years ended June 30, 2023 and June 30, 2022. There were 227 loans originated for \$267,680,496 during the year ended June 30, 2021. Currently there are 240 loans outstanding. The total principal outstanding is \$229,658,876 of which BND participates in \$148,715,784. The remaining amount of buydown interest to be paid by this Fund on these loans is \$11,906,457. The program is no longer accepting applications. There are no pending loan commitments.

COVID-19 PACE Recovery Program grants were funded to businesses with a location in North Dakota and that were current on all financial obligations as of March 13, 2020. To qualify the applicant must have sustained a minimum 20% year-over-year gross revenue loss between April 1, 2019 to September 30, 2019 when compared to the same period in 2020. No grant expenditures were disbursed during the years ended June 30, 2023 and June 30, 2022. Total grant expenditures of \$35,584,051 were disbursed to 812 applicants during the year ended June 30, 2021.

REQUIRED FINANCIAL STATEMENTS:

The COVID-19 PACE Recovery Program is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the Program, with the differences between the two reported as fund balance. The statement of revenues, expenditures and changes in fund balance identifies the operating performance of the Program for the year.

**COVID-19 PACE RECOVERY PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

**BALANCE SHEETS
JUNE 30, 2023, 2022, AND 2021**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash deposits	\$ -	\$ -	\$ 1,282,720
Cash deposits for buydown committed	<u>11,906,457</u>	<u>19,515,480</u>	<u>28,178,889</u>
TOTAL ASSETS	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>	<u>\$ 29,461,609</u>
LIABILITIES			
	\$ -	\$ -	\$ -
FUND BALANCE	<u>11,906,457</u>	<u>19,515,480</u>	<u>29,461,609</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>	<u>\$ 29,461,609</u>

Cash Deposits

Cash deposits (not restricted) represents available funds.

Cash Deposits for Restricted Buydowns

Cash deposits for restricted buydowns represents reserved funds that are held by the Bank of North Dakota to buy down the interest for qualifying loans. Cash deposits for restricted buydowns decreased by \$7,609,023 and \$8,663,409 in the years ended June 30, 2023 and June 30, 2022, respectively, due to buydown expensed.

Fund Balance

The Fund Balance represents funds available to the Program. Fund balance of the program as of June 30, 2023, 2022, and 2021 was \$11,906,457, \$19,515,480, and \$29,461,609, respectively.

**COVID-19 PACE RECOVERY PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

**CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2023, 2022, AND 2021**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES	<u>7,609,023</u>	<u>8,679,409</u>	<u>40,141,101</u>
EXCESS OF EXPENDITURES OVER REVENUES	(7,609,023)	(8,679,409)	(40,141,101)
TRANSFERS IN	-	6,100	63,604,824
TRANSFERS (OUT)	<u>-</u>	<u>(1,272,820)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(7,609,023)	(9,946,129)	23,463,723
FUND BALANCE, BEGINNING OF YEAR	<u>19,515,480</u>	<u>29,461,609</u>	<u>5,997,886</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>	<u>\$ 29,461,609</u>

Expenditures

The monies that are being paid to the Bank of North Dakota to buy down the interest rate for qualifying loans are paid in advance and are amortized over the life of the loans based upon the repayment terms of the individual qualifying loan. Interest expenditures increased due to the short-term offering of the program and the volume of loans. Grant expenditures disbursed through the CPR II Program.

Transfers In/Out

For the year ended June 30, 2023, the Office of Management and Budget transferred \$0 into the Program and the Program returned \$0 in unspent COVID Relief Funding dollars back to Office of Management and Budget. For the year ended June 30, 2022, the Office of Management and Budget transferred \$6,100 into the Program and the Program returned \$1,272,820 in unspent COVID Relief Funding dollars back to Office of Management and Budget. For the year ended June 30, 2021, the Office of Management and Budget transferred \$63,604,824 into the Program.

ECONOMIC FACTORS AND FUTURE OUTLOOK

The North Dakota Emergency Commission approved federal CARES Act dollars of up to \$200 million to be utilized for interest rate buydowns. In September of 2020, the North Dakota Budget Commission reduced the original commitment of \$200 million to \$50 million to be used between the two programs, CPR I and CPR II. An additional \$20 million was approved to be used between the CPR I and CPR II programs in October of 2020 by the North Dakota Budget Commission.

**COVID-19 PACE RECOVERY PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021**

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

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

COVID-19 PACE RECOVERY PROGRAM
BALANCE SHEETS
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ -	\$ -
Cash deposits at the Bank of North Dakota for restricted buydowns	<u>11,906,457</u>	<u>19,515,480</u>
TOTAL ASSETS	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>
LIABILITIES	\$ -	\$ -
FUND BALANCE		
Restricted	<u>11,906,457</u>	<u>19,515,480</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>

COVID-19 PACE RECOVERY PROGRAM
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
REVENUES	\$ -	\$ -
EXPENDITURES		
Buydown interest	7,609,023	8,663,409
Grant Expenditures	-	-
Other Expenses	-	16,000
	<u>-</u>	<u>16,000</u>
EXCESS OF EXPENDITURES OVER REVENUES	(7,609,023)	(8,679,409)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	6,100
Transfers (out)	-	(1,272,820)
	<u>-</u>	<u>(1,272,820)</u>
NET CHANGE IN FUND BALANCE	(7,609,023)	(9,946,129)
FUND BALANCE, BEGINNING OF YEAR	<u>19,515,480</u>	<u>29,461,609</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,906,457</u>	<u>\$ 19,515,480</u>

COVID-19 PACE RECOVERY PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The COVID-19 PACE Recovery Program (the Program) was created to assist local financial institutions in providing low interest loans and grants to support North Dakota businesses in their economic recovery due to negative impacts from the COVID-19 pandemic. The Bank of North Dakota supervises and administers the Program.

Borrowers eligible through CPR I included a person or entity whose business was located in North Dakota, had the capacity or history of showing it can service debt prior to the COVID-19 pandemic, and the local lender determined that the borrower's business has incurred economic injury as a result of the pandemic. Proceeds may be used to support working capital needs or term out COVID-19 related bridge loans or credit card debt originated on or after March 13, 2020. This amount may not exceed 20% of the maximum loan amount. For businesses of 500 or fewer employees, the maximum loan amount was the lesser of \$5,000,000 or six months of operating expenses plus interest. For businesses of 501 employees or more, the maximum loan amount was the lesser of \$10,000,000 or six months of operating expenses plus interest. The Bank of North Dakota's participation percentage may not exceed 80% nor be less than 50% of the total loan. The Program then buys down the interest rate of the loan to 1%.

Grantees eligible through the CPR II included businesses with a location in North Dakota and that were current on all financial obligations as of March 13, 2020. To qualify the applicant must have sustained a minimum 20% year-over-year gross revenue loss between April 1, 2019 to September 30, 2019 when compared to the same period in 2020. The maximum amount of buydown is the total of eligible interest expense accrued by a qualifying applicant between April 1, 2020 and September 30, 2020 or \$50,000, whichever is less. Buydown received from other BND buydown programs shall be excluded from eligible interest.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Program should include all component units over which the Program exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Program.

Based on that criteria, no organizations were determined to be part of the reporting entity. The Program is included as part of the primary government of the State of North Dakota's (State) reporting entity.

Accounting Standards

The Program follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

COVID-19 PACE RECOVERY PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Fund Accounting

The Program is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using the current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

Credit Related Financial Instruments

In the ordinary course of business, the Program has entered into commitments to buy down interest rates on loans. Such financial instruments are recorded when they are funded.

Fund Balance Classifications

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision-making authority. These restricted amounts cannot be used for any other purpose unless it meets the requirements of the grantors or laws and regulations of other governments; or through constitutional provisions or enabling legislation. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically restricted for use in satisfying those contractual requirements.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Program’s cash deposits at June 30, 2023 and 2022 was \$0 and \$0. Of the bank amounts, none were insured or collateralized with securities held by the entity or its agent in the entity’s name; none were collateralized with securities held by the counterparty’s trust department or agent in the entity’s name; and all were either collateralized with securities held by the counterparty or by its trust department or agent but not in the entity’s name, or collateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a formal policy that limits custodial credit risk for deposits. The Program’s deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 06-09-10).

COVID-19 PACE RECOVERY PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 - CASH DEPOSITS AT BANK OF NORTH DAKOTA FOR RESTRICTED BUYDOWNS

The monies that are being held by the Bank of North Dakota to buy down the interest rate for qualifying loans are paid in advance. Buydown interest is amortized over the life of the loans based upon the repayment terms of the individual qualifying loan. In the event of prepayment or default on qualifying loans, the full approved buydown interest will be awarded to the qualifying loan.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Program is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the Program on the cash accounts held at the Bank of North Dakota. Interest buydowns amortized into interest expense totaled \$7,609,023 and \$8,663,409 in 2023 and 2022, of which approximately 65% accrued to the Bank of North Dakota.

The Program also has on deposit with the Bank of North Dakota monies used to fund the interest buydowns on qualifying loans, which is included in “cash deposits for buydowns committed” on the balance sheet (see Note 3).

The North Dakota Emergency Commission approved federal CARES Act dollars of up to \$200 million to be utilized for interest rate buydowns. In September of 2020, the North Dakota Budget Commission reduced the original commitment of \$200 million to \$50 million to be used between the two programs, CPR I and CPR II. An additional \$20 million was approved to be used between the CPR I and CPR II programs in October of 2020 by the North Dakota Budget Commission. For the year ended June 30, 2023, the Office of Management and Budget transferred \$0 into the Program and the Program returned \$0 in unspent COVID Relief Funding dollars back to Office of Management and Budget. For the year ended June 30, 2022, the Office of Management and Budget transferred \$6,100 into the Program and the Program returned \$1,272,820 in unspent COVID Relief Funding dollars back to Office of Management and Budget.

NOTE 5 - RISK MANAGEMENT

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

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

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

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



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the COVID-19 PACE Loan Program (the Fund), a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated September 5, 2023.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
September 5, 2023



**COVID-19 PACE Loan Program
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

Yes

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

None

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 5, 2023



September 5, 2023

To the Governor of North Dakota
And the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of COVID-19 PACE Loan Program (the Program) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 5, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 5, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. No such significant accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There were no financial statement disclosures that we consider to be particularly sensitive or involve significant judgement.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Program are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 5, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Innovation Technology Loan Fund (LIFT)

INNOVATION TECHNOLOGY LOAN FUND

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Independent Auditor's Report

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Innovation Technology Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

The management discussion and analysis of the Innovation Technology Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023, 2022 and 2021. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Innovation Technology Loan Fund was established by North Dakota Century Code Section 6-09.18 for the purpose of providing financing for commercialization of intellectual property within the State of North Dakota. Industries eligible for loans include advanced computing and data management, agriculture technology, autonomous and unmanned vehicles and related technology, energy, health care, value-added agriculture, value-added energy, and any other industry or area identified by the committee that will contribute to the diversification of the state's economy.

There were ten new loans for \$7,099 with advances totaling \$4,894 made by the Fund during the year ended June 30, 2023. There were fifteen new loans for \$8,980 with advances totaling \$7,823 made by the Fund during the year ended June 30, 2022. There were ten new loans for \$6,590 with advances totaling \$8,092 made by the Fund during the year ended June 30, 2021. As of June 30, 2023, the gross amount of outstanding loans is \$22,600 with an allowance for loan losses of \$3,390 for net loans of \$19,210.

There were two pending loan commitments totaling \$2,500 as of June 30, 2023 compared to five pending loan commitments totaling \$4,249 as of June 30, 2022.

Funds available for investment in loans for the year ended June 30, 2023 were \$6,971.

REQUIRED FINANCIAL STATEMENTS:

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

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 6,971	\$ 12,029	\$ 1,514
Loans, net of allowance for loan loss	19,210	16,821	12,714
Interest receivable	8	-	-
TOTAL ASSETS	<u>\$ 26,189</u>	<u>\$ 28,850</u>	<u>\$ 14,228</u>
LIABILITIES			
	<u>\$ 28</u>	<u>\$ 20</u>	<u>\$ 16</u>
NET POSITION - UNRESTRICTED	<u>26,161</u>	<u>28,830</u>	<u>14,212</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 26,189</u>	<u>\$ 28,850</u>	<u>\$ 14,228</u>

Loans

There were ten new loans for \$7,099 with advances totaling \$4,894 made during the year ended June 30, 2023. There were fifteen new loans for \$8,980 with advances totaling \$7,823 made during the year ended June 30, 2022. As of June 30, 2021, there were ten new loans for \$6,590 with advances totaling \$8,092. As of June 30, 2023, there are forty-one loans outstanding totaling \$22,600 with an allowance for loan losses of \$3,390 for net loans of \$19,210.

Liabilities

The only liability of the Fund is an administrative fee payable to the Bank.

Net Position

Net position of the Fund was \$26,161, \$28,830, and \$14,212 as of June 30 2023, 2022, and 2021, respectively.

INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENSES	<u>2,711</u>	<u>391</u>	<u>498</u>
OPERATING LOSS	<u>(2,694)</u>	<u>(391)</u>	<u>(498)</u>
NONOPERATING REVENUES	<u>25</u>	<u>9</u>	<u>4</u>
LOSS BEFORE TRANSFERS	<u>(2,669)</u>	<u>(382)</u>	<u>(494)</u>
TRANSFERS IN	<u>-</u>	<u>15,000</u>	<u>5,000</u>
CHANGE IN NET POSITION	<u>(2,669)</u>	<u>14,618</u>	<u>4,506</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,830</u>	<u>14,212</u>	<u>9,706</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 26,161</u></u>	<u><u>\$ 28,830</u></u>	<u><u>\$ 14,212</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. The interest rate established for the Fund is zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

Expenses

Operating expenses consist primarily of provision for loan loss of \$2,505 for fiscal year 2023. For years ended June 30, 2022 and 2021, the provision for loan loss was \$216 and \$404. Other expenses include administration fees paid to the Bank of North Dakota and Department of Commerce, as well as an annual audit of the financial statements of the Fund. Administrative expenses for the years ended June 30, 2023, 2022, and 2021 were \$103, \$72, and \$52, respectively.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance and investments.

**INNOVATION TECHNOLOGY LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, AND 2021
(Dollars in Thousands)**

Transfers In

House Bill 1333 of the 2019 Legislative Session created the Fund and appropriated up to \$15,000 in transfers from the Bank of North Dakota, of which the bank had transferred \$5 million into the Fund as of June 30, 2021 and \$10 million into the Fund as of June 30, 2020.

House Bill 1141 of the 2021 Legislative Session created the Fund and appropriated up to \$15,000 in transfers from the Office of Management and Budget, of which they had transferred \$15 million into the Fund as of June 30, 2022.

ECONOMIC FACTORS AND FUTURE OUTLOOK

As of June 30, 2023, there were two pending loan commitments. House Bill 1018 of the 2023 Legislative Session authorized the Office of Management and Budget to transfer up to \$10,000 during the biennium beginning July 1, 2023, and ending June 30, 2025. During the year ended June 30, 2023, no funds have been transferred to the Fund.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,971	\$ 12,029
Loans, current portion	2,707	5,524
Interest receivable	8	-
	<u>9,686</u>	<u>17,553</u>
Noncurrent Assets		
Loans, net of allowance for loan losses of \$3,390 in 2023 and \$885 in 2022	<u>16,503</u>	<u>11,297</u>
Total assets	<u>\$ 26,189</u>	<u>\$ 28,850</u>
LIABILITIES		
Current Liabilities	<u>\$ 28</u>	<u>\$ 20</u>
NET POSITION		
Unrestricted	<u>26,161</u>	<u>28,830</u>
Total liabilities and net position	<u>\$ 26,189</u>	<u>\$ 28,850</u>

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND POSITION
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES	<u>\$ 17</u>	<u>\$ -</u>
OPERATING EXPENSES		
Administrative fees to Bank of North Dakota	103	72
Administrative fees to Department of Commerce	103	103
Provision for loan loss	<u>2,505</u>	<u>216</u>
OPERATING LOSS	(2,694)	(391)
NONOPERATING REVENUES		
Investment income	<u>25</u>	<u>9</u>
NONOPERATING INCOME	<u>25</u>	<u>9</u>
LOSS BEFORE TRANSFERS	(2,669)	(382)
TRANSFERS		
Transfers from Office of Management and Budget	<u>-</u>	<u>15,000</u>
CHANGE IN NET POSITION	(2,669)	14,618
TOTAL NET POSITION, BEGINNING OF YEAR	<u>28,830</u>	<u>14,212</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 26,161</u></u>	<u><u>\$ 28,830</u></u>

INNOVATION TECHNOLOGY LOAN FUND
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of operating expenses	\$ (103)	\$ (171)
Payment of administrative fees to Bank of North Dakota	(95)	-
NET CASH USED FOR OPERATING ACTIVITIES	<u>(198)</u>	<u>(171)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Office of Management and Budget	-	15,000
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>15,000</u>
INVESTING ACTIVITIES		
Investment income received	25	9
Loan interest received	9	-
Proceeds from principal collections on loans	-	3,500
Loans advanced	(4,894)	(7,823)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(4,860)</u>	<u>(4,314)</u>
NET CHANGE IN CASH	(5,058)	10,515
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,029</u>	<u>1,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,971</u>	<u>\$ 12,029</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (2,694)	\$ (391)
Adjustments to reconcile operating loss		
to net cash used for operating activities		
Adjustment for provision for loan loss	2,505	216
Increase in due to Bank of North Dakota	8	4
Reclassification of items to other activities		
Interest income on loans	(17)	-
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (198)</u>	<u>\$ (171)</u>

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Innovation Technology Loan Fund was established by North Dakota Century Code (NDCC) Section 6-09.18 for the purpose of providing financing for commercialization of intellectual property within the State of North Dakota. Industries eligible for loans include advanced computing and data management, agriculture technology, autonomous and unmanned vehicles and related technology, energy, health care, value-added agriculture, value-added energy, and any other industry or area identified by the committee that will contribute to the diversification of the state's economy. The Fund was established with a fifteen million dollar appropriation from the Bank of North Dakota.

Loans made by the Fund must have an interest rate of zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Loans

Loans are stated at their outstanding unpaid principal balance. Loans made by the Fund must have an interest rate of zero percent for the first three years of the loan, two percent for the next two years of the loan, and an interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 2 - DEPOSITS

Deposits

The carrying value and bank balance of the Fund’s cash deposits at June 30, 2023 and 2022 were \$6,971 and \$12,029, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

A description of the Fund’s loans is included under “Nature of Operations” in Note 1. A summary of the balances of loans are as follows:

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 2,707	\$ 5,524
Loans, noncurrent portion	19,893	12,182
Total loans	22,600	17,706
Allowance for loan losses	3,390	885
Total loans, net	<u>\$ 19,210</u>	<u>\$ 16,821</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ 13,383
Loan advances	7,823
Principal collections	(3,500)
Balance, June 30, 2022	17,706
Loan advances	4,894
Principal collections	-
Balance, June 30, 2023	<u>\$ 22,600</u>

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for loan losses are as follows:

Balance, beginning of year	\$	885	\$	669
Provision for loan losses		<u>2,505</u>		<u>216</u>
Balance, end of year	<u>\$</u>	<u>3,390</u>	<u>\$</u>	<u>885</u>

There were two impaired loans as of June 30, 2023. There was one loan on nonaccrual status and no loans 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash and time deposits are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the Fund \$103 for administrative fees during the year ended June 30, 2023, of which the Fund owed the Bank \$28 as of June 30, 2023. The Bank charged the Fund \$72 for administrative fees during the year ended June 30, 2022, of which the Fund owed the Bank \$20 as of June 30, 2022.

House Bill 1018 of the 2023 Legislative Session authorized the Office of Management and Budget to transfer up to \$10,000 during the biennium beginning July 1, 2023, and ending June 30, 2025 from the Strategic Investment and Improvements Fund. During the year ended June 30, 2023, no funds have been transferred into the Fund.

House Bill 1141 of the 2021 Legislative Session authorized the Office of Management and Budget to transfer up to \$15,000 during the biennium beginning July 1, 2021, and ending June 30, 2023 from the Strategic Investment and Improvements Fund. During the year ended June 30, 2022, \$15 million had been transferred into the Fund.

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to loan loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There were two pending loan commitments for \$2,500 as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

INNOVATION TECHNOLOGY LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 6 - RISK MANAGEMENT

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

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

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

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



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Innovation Technology Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 21, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023



**Innovation Technology Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 21, 2023



September 21, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Innovation Technology Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 21, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 21, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the fund's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 21, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

North Dakota Student Loan Trust

NORTH DAKOTA STUDENT LOAN TRUST

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Independent Auditor's Report

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the North Dakota Student Loan Trust (the Trust), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Trust are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Trust. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust. The combining statements of net position and combining statements of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position and combining statements of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2023 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



Bismarck, North Dakota
October 2, 2023

NORTH DAKOTA STUDENT LOAN TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, and 2021
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Student Loan Trust (Trust) that follows is meant to provide additional insight into the Trust's activities for the years ended June 30, 2023, 2022, and 2021. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

Section 54-17-24 of the North Dakota Century Code authorized the establishment of the North Dakota Student Loan Trust. On June 27, 1979, the Commission adopted the North Dakota Student Loan Revenue Bonds General Bond Resolution establishing the North Dakota Student Loan Trust fund. On June 19, 1996, the Commission adopted the Second General Bond Resolution and the First Supplemental Resolution to the North Dakota Student Loan Revenue Bonds - Second General Bond Resolution. The purpose of the Trust is to provide loans to students in post-secondary education. The Trust acquires eligible loans insured or guaranteed, respectively, by the United States government or the North Dakota Guaranteed Student Loan Program. All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts.

DEAL loans are available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2023, the fixed rate was 6.53% and the variable rate was 6.72%. As of July 1, 2022, the fixed rate was 6.15% and the variable rate was 3.50%. As of July 1, 2021, the fixed rate was 3.90% and the variable rate was 1.62%.

The Trust 2023 statement of net position indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There are \$1,780 of current assets available to meet the next fiscal year's obligations of approximately \$6. The net loss in the statement of revenues, expenses, and changes in net position is a result of the changing rate environment.

REQUIRED FINANCIAL STATEMENTS:

The management discussion and analysis is intended to serve as an introduction to the Trust's financial statements. The Trust is accounted for utilizing fund accounting and includes the requirements of 1) the General Bond Resolution Fund and 2) the Second General Bond Resolution Fund. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Trust provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the Trust. The Statement of Revenues, Expenses and Changes in Net Position summarizes the Trust's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Trust as it conducts its business.

NORTH DAKOTA STUDENT LOAN TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, and 2021
(In Thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
CURRENT ASSETS - UNRESTRICTED	\$ 8	\$ 9	\$ 6
CURRENT ASSETS - RESTRICTED	1,772	1,816	1,724
NONCURRENT ASSETS - UNRESTRICTED	<u>434</u>	<u>409</u>	<u>492</u>
TOTAL ASSETS	<u>\$ 2,214</u>	<u>\$ 2,234</u>	<u>\$ 2,222</u>
LIABILITIES			
CURRENT LIABILITIES	\$ 6	\$ 3	\$ 2
NONCURRENT LIABILITIES	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
TOTAL LIABILITIES	<u>1,006</u>	<u>1,003</u>	<u>1,002</u>
NET POSITION			
RESTRICTED FOR DEBT SERVICE	772	816	724
UNRESTRICTED	<u>436</u>	<u>415</u>	<u>496</u>
TOTAL NET POSITION	<u>1,208</u>	<u>1,231</u>	<u>1,220</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,214</u>	<u>\$ 2,234</u>	<u>\$ 2,222</u>

NORTH DAKOTA STUDENT LOAN TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, and 2021
(In Thousands)

Significant Statement of Net Position Changes

Total assets of the Trust decreased (\$20) in 2023, primarily due to the decrease in loans receivable. Total assets of the Trust increased \$12 in 2022, primarily due to interest earned on student loans. Total assets of the Trust decreased \$26 in 2021, primarily due to the decrease earned on student loans.

There were no new bonds issued in 2023, 2022, or 2021. No principal payments were made during the fiscal years ended June 30, 2023, 2022, or 2021.

Cash, Cash Equivalents and Investments

Trust cash, cash equivalents and investments, which are included in restricted assets, are restricted for the debt service of bond issues for the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Trust cash, cash equivalents and investments, which are included in unrestricted assets, are unrestricted within the Trust for the overall uses of the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Student Loans Receivable

The student loans receivable are included in current and noncurrent assets of the statement of net position. As of June 30, 2023, all student loans are insured by the North Dakota Guaranteed Student Loan Program (GSL). All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts. Additional discussion can be found in Notes 1 and 4 to the financial statements.

Appropriation Payable

North Dakota Legislature did not pass any legislation impacting the Trust in the 2019 or 2021 sessions. Administration expenses of \$96 were paid to the Industrial Commission for the biennium beginning July 1, 2019, and ending June 30, 2021. As of June 30, 2021, \$96 has been transferred to the Industrial Commission.

Bonds Payable

The Trust has issued bonds in order to facilitate the purchase of student loans. The bonds payable are included in the current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Trust and are secured by student loans purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Note 5 to the financial statements provides a detailed listing of all the bonds outstanding.

Net Position

The Restricted Net Position of the North Dakota Student Loan Trust is restricted by bond resolutions for the repayment of bond interest and principal. Monies held in surplus accounts can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota, fund a guarantee agency's guarantee program.

NORTH DAKOTA STUDENT LOAN TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, and 2021
(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES			
Interest on student loans	\$ 30	\$ 35	\$ 44
Total operating revenues	<u>30</u>	<u>35</u>	<u>44</u>
OPERATING EXPENSES			
Interest	46	10	8
Service fees	4	5	7
Other	10	10	10
Total operating expenses	<u>60</u>	<u>25</u>	<u>25</u>
OPERATING INCOME (LOSS)	(30)	10	19
NONOPERATING REVENUE	<u>7</u>	<u>1</u>	<u>3</u>
INCOME (LOSS) BEFORE TRANSFERS	(23)	11	22
TRANSFERS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(23)	11	22
TOTAL NET POSITION, BEGINNING OF YEAR	<u>1,231</u>	<u>1,220</u>	<u>1,198</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 1,208</u>	<u>\$ 1,231</u>	<u>\$ 1,220</u>

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to the Trust.

Special Allowance and Interest Subsidy

Prior to the Federal loan sale, the U.S. Department of Education provided a special allowance, which was a subsidy to lenders participating in the Guaranteed Student Loan Program. Also, the U.S. Department of Education paid the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. All Federal student loans were sold in October of 2017.

Transfers

No transfers were made during the fiscal years 2023, 2022, and 2021.

**NORTH DAKOTA STUDENT LOAN TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023, 2022, and 2021
(In Thousands)**

ECONOMIC FACTORS AND FUTURE OUTLOOK

There was no legislation impacting the Trust during the 2021 or 2023 Legislative Sessions. The Trust continues to have adequate cashflow from student loan repayments to meet its future obligations.

CONTACTING THE NORTH DAKOTA STUDENT LOAN TRUST'S FINANCIAL MANAGEMENT

The information in this report is intended to provide the reader with an overview of the Trust's operations along with the Trust's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Industrial Commission, North Dakota Student Loan Trust, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

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NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF NET POSITION
JUNE 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Due from other state agencies	\$ 7	\$ 9
Interest receivable	<u>1</u>	<u>-</u>
Total unrestricted current assets	<u>8</u>	<u>9</u>
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	713	677
Investments	1,000	1,000
Student loans receivable	<u>59</u>	<u>139</u>
Total restricted current assets	<u>1,772</u>	<u>1,816</u>
NONCURRENT ASSETS - UNRESTRICTED		
Student loans receivable	<u>434</u>	<u>409</u>
Total assets	<u><u>\$ 2,214</u></u>	<u><u>\$ 2,234</u></u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF NET POSITION – Page 2
YEARS ENDED JUNE 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to other state agencies	\$ 5	\$ 1
Accrued fees payable - related party	<u>1</u>	<u>2</u>
Total current liabilities	<u>6</u>	<u>3</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>1,000</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>1,000</u>
Total liabilities	<u>1,006</u>	<u>1,003</u>
NET POSITION		
Restricted for debt service	772	816
Unrestricted	<u>436</u>	<u>415</u>
Total net position	<u>1,208</u>	<u>1,231</u>
Total liabilities and net position	<u><u>\$ 2,214</u></u>	<u><u>\$ 2,234</u></u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on student loans	\$ 30	\$ 35
Total operating revenues	<u>30</u>	<u>35</u>
OPERATING EXPENSES		
Interest	46	10
Service fees	4	5
Administration fees	1	1
Bond related expenses	<u>9</u>	<u>9</u>
Total operating expenses	<u>60</u>	<u>25</u>
OPERATING INCOME (LOSS)	(30)	10
NONOPERATING REVENUE		
Investment income	<u>7</u>	<u>1</u>
INCOME (LOSS) BEFORE TRANSFERS	(23)	11
TRANSFERS - STATE AGENCIES	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(23)	11
TOTAL NET POSITION, BEGINNING OF YEAR	<u>1,231</u>	<u>1,220</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 1,208</u></u>	<u><u>\$ 1,231</u></u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 and 2022
(In Thousands)

	2023	2022
OPERATING ACTIVITIES		
Receipts of student loan repayments	\$ 87	\$ 165
Payments to state agency service providers	(5)	(6)
Payments to other service providers	(9)	(9)
NET CASH FROM OPERATING ACTIVITIES	<u>73</u>	<u>150</u>
NON-CAPITAL FINANCING ACTIVITIES		
Bond interest payments	(43)	(9)
Transfer to North Dakota Industrial Commission	-	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	<u>(43)</u>	<u>(9)</u>
INVESTING ACTIVITIES		
Investment interest received	6	1
Purchase of investment securities	(2,000)	(2,000)
Proceeds from sale and maturity of investment securities	2,000	2,000
NET CASH FROM INVESTING ACTIVITIES	<u>6</u>	<u>1</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	36	142
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>677</u>	<u>535</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 713</u></u>	<u><u>\$ 677</u></u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF CASH FLOWS – Page 2
YEARS ENDED JUNE 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM/USED FOR OPERATING ACTIVITIES		
Operating income (loss)	\$ (30)	\$ 10
Reclassification of interest income and expense to other activities	44	9
Changes in assets and liabilities		
Student loans receivable	55	133
Due from other state agencies	2	(3)
Interest receivable	(1)	-
Due to other state agencies	4	1
Accrued fees payable - related party	(1)	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 73</u>	<u>\$ 150</u>

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 54-17-24 of the North Dakota Century Code authorized the establishment of the North Dakota Student Loan Trust (Trust). On June 27, 1979, the Commission adopted the North Dakota Student Loan Revenue Bonds General Bond Resolution establishing the North Dakota Student Loan Trust fund. On June 19, 1996, the Commission adopted the Second General Bond Resolution and the First Supplemental Resolution to the North Dakota Student Loan Revenue Bonds - Second General Bond Resolution. The purpose of the Trust is to provide loans to students in post-secondary education. The Trust acquires eligible loans insured or guaranteed, respectively, by the United States government or the North Dakota Guaranteed Student Loan Program. All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Trust should include all component units over which the Trust exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Trust.

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

Accounting Standards and Adoptions of Accounting Policies

The Trust follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

Fund Accounting

The North Dakota Student Loan Trust consists of a trust fund, which is a separate accounting entity accounted for as an enterprise fund and uses the accrual basis of accounting. The fund is set up in accordance with the authorizing act, the bond resolutions and indenture. The fund consists of the First General Bond Resolution Fund, which includes the 2004 A student loan revenue bonds and the Second General Bond Resolution Fund. Proceeds of bonds are recorded in the fund and used to provide student loans to eligible students. The bond resolutions require the establishment of certain accounts and sub-accounts. Bond proceeds that are deposited in these accounts are invested in qualifying investments. Interest income, interest expense, special allowance and interest subsidy, and gain on redemption of bonds are recorded in this fund in accordance with the bond resolutions.

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

Basis of Accounting and Measurement Focus

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

Most of the Trust's activities are with student loan borrowers in the State of North Dakota.

Cash and Cash Equivalents

The Trust considers all cash and time deposit accounts with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows.

Deposits and Investments

Time deposits are carried at cost, as they are nonnegotiable certificates of deposits with redemption terms that do not consider market rates. Investment securities are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

Restricted Assets and Restricted Net Position

The assets and net position of the North Dakota Student Loan Trust are restricted by bond resolutions for the repayment of bond interest and principal.

Moneys held in surplus accounts (which are classified as unrestricted on the statement of net position) can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota (the Commission), fund a guarantee agency's guarantee program.

Expenses of the Trust are paid in accordance with the provisions of the General and Second General Bond Resolutions and the Series Resolutions. Expenses related to a specific bond series are paid from funds available within that particular resolution. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Trust considers restricted funds to have been spent first.

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

Operating and Non-Operating Revenues

Operating revenues consist of interest income on loans and the related special allowance and interest subsidies related to the loans. All other revenues that do not meet the above criteria are classified as non-operating.

NOTE 2 - UNRESTRICTED NET ASSETS

The assets and net position of the North Dakota Student Loan Trust are restricted by bond resolutions for the repayment of bond interest and principal.

As of June 30, 2023 and 2022, the surplus accounts consist of the following:

	2023	2022
Due from other state agencies	\$ 7	\$ 9
Interest receivable	1	-
Accrued fees payable - related party	(1)	(2)
Due to other state agencies	(5)	(1)
Student loans receivable	434	409
	\$ 436	\$ 415

NOTE 3 - DEPOSITS AND INVESTMENTS

All funds have their monies invested in securities or deposits allowed by the General Bond Resolution establishing the Trust and the Second General Bond Resolution. Such moneys may be invested in: (1) direct obligations of or obligations guaranteed by the United States of America, (2) deposits of the Bank of North Dakota which are guaranteed as provided in North Dakota Century Code Section 6-09-10, (3) demand deposits and time deposits issued by banks, which are members of the Federal Deposit Insurance Corporation, (4) bonds, debentures, or notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America, (5) repurchase agreements or reverse repurchase agreements with banks, which are secured by securities which are obligations described in item (1) above, and (6) banker's acceptances of banks described in items (2) and (3) above.

Deposits

As of June 30, 2023 and 2022, the Trust had cash deposits of \$713 and \$677, respectively, with the Bank of North Dakota. The Trust also had time deposits of \$1,000 and \$1,000, respectively, with the Bank. For classification purposes on the Statement of Net Position, cash and cash equivalents were \$713 and \$677, respectively, and investments were \$1,000 and \$1,000 as of June 30, 2023 and 2022, respectively.

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

Custodial and Concentration of Credit Risk

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

NOTE 4 - STUDENT LOANS RECEIVABLE

The Trust has outstanding loans with annual fixed and variable interest rates. DEAL student loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, so there is no allowance for loan loss. Loan balances as of June 30, 2023 and 2022 total \$493 and \$548, respectively, with \$59 and \$139 designated as current assets.

Student loans are classified as student, deferred, repayment or claim status. The student status represents the period from the date the loan is made until a student is out of school, plus an authorized grace period. Deferred status represents a loan that has an authorized deferment of payment period. Repayment status indicates the loan is in repayment. Claim status represents those loans that have a claim filed with the guarantor.

As of June 30, 2023, there were zero in deferred status and \$493 in repayment status. As of June 30, 2022, there were \$58 in deferred status and \$490 in repayment status. The change in deferment statuses was due to borrowers being offered up to eighteen-months of disaster deferment to reduce the financial burden of the COVID-19 pandemic.

NOTE 5 - BONDS PAYABLE

Changes in Bonds Payable

The following is a summary of the changes in bonds payable for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 1,000	\$ 1,000
Principal payments on bonds	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

Maturities of Bonds Payable

The combined aggregate of future maturities and sinking fund requirements for all bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 55	\$ 55
2025	-	55	55
2026	-	55	55
2027	-	55	55
2028	-	55	55
2029	1,000	54	1,054
	<u>\$ 1,000</u>	<u>\$ 329</u>	<u>\$ 1,329</u>

The following is a more detailed description of the individual bond issue that remains outstanding as of June 30, 2023 and 2022.

	<u>Maturity Dates</u>	<u>Interest Rate</u>	<u>2023</u>	<u>2022</u>
General Bond Resolution Fund 2004 Series A	June 1, 2029	5.87%	(1) \$ 1,000	\$ 1,000
Less current portion			-	-
Noncurrent portion			<u>\$ 1,000</u>	<u>\$ 1,000</u>

(1) Variable on June 30, 2023.

2004 SERIES A BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on one-month SOFR plus 0.7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022
(In Thousands)

NOTE 6 - INTERFUND AND RELATED PARTY TRANSACTIONS

The North Dakota Student Loan Trust is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. All cash and time deposits are deposited in the Bank of North Dakota. Interest receivable from the Bank of North Dakota totaled \$7 and \$9 as of June 30, 2023 and 2022 and is reflected as due from other state agencies on the statement of net position. Investment securities are held in safekeeping and all student loans are purchased from the Bank of North Dakota. The Bank of North Dakota also acts as the paying agent for the 2004 Series A Bonds. In addition, the Bank services the student loans held by the Trust, and maintains the accounting and other records for the Trust.

Fees expensed to the Bank of North Dakota for the following services included in the accompanying financial statements were as follows:

	<u>2023</u>	<u>2022</u>
Service fees	\$ 4	\$ 5
Administration fees	1	1
	<u>\$ 5</u>	<u>\$ 6</u>

Payables to the Bank of North Dakota for such fees amounting to \$1 and \$2 as of June 30, 2023 and 2022 are included in “accrued fees payable – related party” on the statement of net position.

NOTE 7 - RISK MANAGEMENT

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

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State’s sovereign immunity. The RMF manages the tort liability of the State, its agencies’ employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence. The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$750,000. The State Bonding Fund does not currently charge any premium for this coverage.

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



Supplementary Information
June 30, 2023 and 2022

North Dakota Student Loan Trust

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NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2023
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Interest receivable	\$ 1	\$ -	\$ 1
Due from other state agencies	-	7	7
	<u>1</u>	<u>7</u>	<u>8</u>
Total unrestricted current assets	<u>1</u>	<u>7</u>	<u>8</u>
CURRENT ASSETS - RESTRICTED			
Cash and cash equivalents	13	700	713
Investments	1,000	-	1,000
Student loans receivable	-	59	59
	<u>1,013</u>	<u>759</u>	<u>1,772</u>
Total restricted current assets	<u>1,013</u>	<u>759</u>	<u>1,772</u>
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable	-	434	434
	<u>-</u>	<u>434</u>	<u>434</u>
Total assets	<u>\$ 1,014</u>	<u>\$ 1,200</u>	<u>\$ 2,214</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF NET POSITION – Page 2
JUNE 30, 2023
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Due to other state agencies	\$ 5	\$ -	\$ 5
Accrued fees payable - related party	-	1	1
Total current liabilities	<u>5</u>	<u>1</u>	<u>6</u>
NONCURRENT LIABILITIES			
Bonds payable	<u>1,000</u>	-	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	-	<u>1,000</u>
Total liabilities	<u>1,005</u>	<u>1</u>	<u>1,006</u>
NET POSITION			
Restricted for debt service	13	759	772
Unrestricted	<u>(4)</u>	<u>440</u>	<u>436</u>
Total net position	<u>9</u>	<u>1,199</u>	<u>1,208</u>
Total liabilities and net position	<u>\$ 1,014</u>	<u>\$ 1,200</u>	<u>\$ 2,214</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2022
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Due from other state agencies	\$ -	\$ 9	\$ 9
Total unrestricted current assets	-	9	9
CURRENT ASSETS - RESTRICTED			
Cash and cash equivalents	9	668	677
Investments	1,000	-	1,000
Student loans receivable	-	139	139
Total restricted current assets	1,009	807	1,816
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable	-	409	409
Total assets	<u>\$ 1,009</u>	<u>\$ 1,225</u>	<u>\$ 2,234</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF NET POSITION – Page 2
JUNE 30, 2022
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Due to other state agencies	\$ 1	\$ -	\$ 1
Accrued fees payable - related party	-	2	2
Total current liabilities	<u>1</u>	<u>2</u>	<u>3</u>
NONCURRENT LIABILITIES			
Bonds payable	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total liabilities	<u>1,001</u>	<u>2</u>	<u>1,003</u>
NET POSITION			
Restricted for debt service	9	807	816
Unrestricted	<u>(1)</u>	<u>416</u>	<u>415</u>
Total net position	<u>8</u>	<u>1,223</u>	<u>1,231</u>
Total liabilities and net position	<u>\$ 1,009</u>	<u>\$ 1,225</u>	<u>\$ 2,234</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ -	\$ 30	\$ 30
Total operating revenues	<u>-</u>	<u>30</u>	<u>30</u>
OPERATING EXPENSES			
Interest	46	-	46
Service fees	-	4	4
Administration fees	-	1	1
Bond related expenses	<u>-</u>	<u>9</u>	<u>9</u>
Total operating expenses	<u>46</u>	<u>14</u>	<u>60</u>
OPERATING INCOME /(LOSS)	(46)	16	(30)
NONOPERATING REVENUE			
Investment income	<u>5</u>	<u>2</u>	<u>7</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(41)</u>	<u>18</u>	<u>(23)</u>
TRANSFERS			
Interfund	<u>42</u>	<u>(42)</u>	<u>-</u>
CHANGE IN NET POSITION	1	(24)	(23)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>8</u>	<u>1,223</u>	<u>1,231</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 9</u>	<u>\$ 1,199</u>	<u>\$ 1,208</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ -	\$ 35	\$ 35
Total operating revenues	<u>-</u>	<u>35</u>	<u>35</u>
OPERATING EXPENSES			
Interest	10	-	10
Service fees	-	5	5
Administration fees	-	1	1
Bond related expenses	<u>-</u>	<u>9</u>	<u>9</u>
Total operating expenses	<u>10</u>	<u>15</u>	<u>25</u>
OPERATING INCOME /(LOSS)	(10)	20	10
NONOPERATING REVENUE			
Investment income	<u>1</u>	<u>-</u>	<u>1</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(9)</u>	<u>20</u>	<u>11</u>
TRANSFERS			
Interfund	<u>9</u>	<u>(9)</u>	<u>-</u>
CHANGE IN NET POSITION	-	11	11
TOTAL NET POSITION, BEGINNING OF YEAR	<u>8</u>	<u>1,212</u>	<u>1,220</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 8</u>	<u>\$ 1,223</u>	<u>\$ 1,231</u>



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North Dakota Student Loan Trust (the Trust), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Trust’s basic financial statements, and have issued our report thereon dated October 2, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota
October 2, 2023



**North Dakota Student Loan Trust
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

None

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 2, 2023



October 2, 2023

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of North Dakota Student Loan Trust (the Trust) as of and for the year ended June 30, 2023, and have issued our report thereon dated October 2, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Trust solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated October 2, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Trustis included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There are no significant estimates that affect the Trust's financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Program's financial statements relate to Note 6 – Interfund and Related Party Transactions.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph.

As discussed in Note 1, the financial statements of the Trust are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 2, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Trust, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Clean Sustainable Energy Authority (CSEA)

Clean Sustainable Energy Authority

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Independent Auditor's Report

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Clean Sustainable Energy Authority (the Authority), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023 and as of and for the period of March 15, 2022 through June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the year and period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Bismarck, North Dakota
October 2, 2023

CLEAN SUSTAINABLE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

The management discussion and analysis of the Clean Sustainable Energy Authority (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2023 and period ended June 30, 2022. Please read it in conjunction with the financial statements of the Authority.

FINANCIAL HIGHLIGHTS:

The Clean Sustainable Energy Authority was established by North Dakota Century Code Section 54-63.1-05 to support research, development, and technological advancements through partnerships and financial support for the large scale development and commercialization of projects, processes, activities, and technologies that reduce environmental impacts and increase sustainability of energy production and delivery. The purpose of the financial support is to enhance the production of clean sustainable energy, to make the state a world leader in the production of clean sustainable energy, and to diversify and grow the state's economy. The Bank of North Dakota shall administer the Authority.

Loans made by the Authority may be up to fifty percent of project costs, with a minimum loan amount of \$10,000. The interest rate established for this program has been set at two percent. The maximum term of a loan for this program must be approved by the Industrial Commission based on a recommendation from the Authority. There were two new loans for \$55,000 with advances of \$20,012 made by the Authority during the year ended June 30, 2023. For the period ended June 30, 2022, there was one loan originated for \$15,000. As of June 30, 2023, there were three loans outstanding totaling \$35,012 with an allowance for credit losses of \$1,751, for net loans of \$33,261.

The Bank of North Dakota shall extend a line of credit to the Industrial Commission to support loans or loan guarantees issued from the Authority. The line of credit may not exceed \$250,000, and the interest rate associated with the line of credit must be the prevailing interest rate charged to North Dakota governmental entities. The Industrial Commission may access the line of credit through June 30, 2025. As of June 30, 2023, the Authority has extended \$35,000 from the line of credit. House Bill 1014 of the 2023 Legislative Session increased the line of credit to \$390,000.

There was one pending loan commitment totaling \$100,000 as of June 30, 2023.

Funds available for investment in loans for the year ended June 30, 2023 were \$215,364.

REQUIRED FINANCIAL STATEMENTS:

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

CLEAN SUSTAINABLE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

CONDENSED STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 364	\$ 67
Loans, net	33,261	14,250
Interest receivable	<u>79</u>	<u>12</u>
TOTAL ASSETS	<u>\$ 33,704</u>	<u>\$ 14,329</u>
LIABILITIES		
Accrued Interest Payable	\$ 1,509	\$ 94
Admin Fee Payable	22	19
Notes Payable, due to BND	<u>35,000</u>	<u>15,000</u>
TOTAL LIABILITIES	<u>36,531</u>	<u>15,113</u>
NET POSITION - UNRESTRICTED	<u>(2,827)</u>	<u>(784)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 33,704</u>	<u>\$ 14,329</u>

Loans

There were two new loans with advances totaling \$20,012 made during the fiscal year 2023. There was one loan for \$15,000 made during the period ended June 30, 2022. As of June 30, 2023, there are three loans outstanding totaling \$35,012 with an allowance for credit losses of \$1,751 for net loans of \$33,261.

Net Position

All monies transferred to the Authority, interest upon monies in the Authority, and payments to the Authority of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursements. Net position of the Authority at June 30, 2023 was (\$2,827).

CLEAN SUSTAINABLE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023 AND FOR THE PERIOD OF MARCH 15, 2022 THROUGH JUNE 30,
2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES	<u>\$ 433</u>	<u>\$ 79</u>
OPERATING EXPENSES	<u>2,477</u>	<u>863</u>
OPERATING LOSS	<u>(2,044)</u>	<u>(784)</u>
NONOPERATING REVENUES		
Investment income	<u>1</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(2,043)</u>	<u>(784)</u>
TOTAL NET POSITION, BEGINNING OF YEAR/PERIOD	<u>(784)</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR/PERIOD	<u><u>\$ (2,827)</u></u>	<u><u>\$ (784)</u></u>

Revenue

Operating revenue is from interest accrued on loans outstanding. A loan made from the Authority must have an interest rate of two percent.

Expenses

The provision for credit loss was \$1,001 for the year ended June 30, 2023. The provision for credit loss was \$750 for the period ended June 30, 2022. The provision in 2023 and 2022 was due to loan volume and provides an allowance for potential credit losses.

Administrative fees include fees paid to Bank of North Dakota in the amount of one-half percent of any outstanding loans and an independent audit of the financial records. For the year ended June 30, 2023 administrative fees totaled \$53. For the period ended June 30, 2022 administrative fees totaled \$19.

For the year ended June 30, 2023 interest expense on loans was \$1,415. For the period ended June 30, 2022 interest expense on loans was \$94. The interest expense on loans was due to the \$35,000 extended on the line of credit from Bank of North Dakota to support loan fundings by the Authority.

Nonoperating Revenue

Nonoperating revenue represents interest earned on cash and cash equivalents.

CLEAN SUSTAINABLE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

ECONOMIC FACTORS AND FUTURE OUTLOOK

There are two outstanding commitments to extend credit. Loans made by the Authority may be up to fifty percent of project costs, with a minimum loan amount of ten million. The interest rate established for this program has been set at two percent. The maximum term of a loan for this program must be approved by the Industrial Commission based on a recommendation from the Authority.

House Bill 1015 of the 2021 Legislative Session authorized transfers up to two hundred fifty million through a line of credit extended by Bank of North Dakota to the Industrial Commission. As of June 30, 2023, the Authority has up to \$215,364 available for transfer.

House Bill 1014 of the 2023 Legislative Session authorizes repayment of the line of credit of thirty million dollars to repay the line of credit and to provide future funding for loans. This bill also increased the line of credit to \$390,000 through June 30, 2023.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

CLEAN SUSTAINABLE ENERGY AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 364	\$ 67
Loans, current portion	1,121	-
Interest receivable	<u>79</u>	<u>12</u>
Total current assets	<u>1,564</u>	<u>79</u>
Noncurrent Assets		
Loans, net of allowance for credit losses of \$1,751 in 2023 and \$750 in 2022	<u>32,140</u>	<u>14,250</u>
Total assets	<u><u>\$ 33,704</u></u>	<u><u>\$ 14,329</u></u>
LIABILITIES		
Current Liabilities		
Accrued Interest Payable	\$ 1,509	\$ 94
Admin Fee Payable	<u>22</u>	<u>19</u>
Total Current Liabilities	<u>1,531</u>	<u>113</u>
Noncurrent Liabilities		
Notes Payable, due to BND	<u>35,000</u>	<u>15,000</u>
Total Noncurrent Liabilities	<u>35,000</u>	<u>15,000</u>
NET POSITION		
Unrestricted	<u>(2,827)</u>	<u>(784)</u>
Total liabilities and net position	<u><u>\$ 33,704</u></u>	<u><u>\$ 14,329</u></u>

CLEAN SUSTAINABLE ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023 AND FOR THE PERIOD OF MARCH 15, 2022 THROUGH JUNE 30,
2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 433</u>	<u>\$ 79</u>
OPERATING EXPENSES		
Administrative fees	53	19
Interest expense loans	1,415	94
Other Expenses	8	-
Provision for credit loss	<u>1,001</u>	<u>750</u>
Total Operating Expenses	<u>2,477</u>	<u>863</u>
OPERATING LOSS	(2,044)	(784)
NONOPERATING REVENUES		
Investment income	<u>1</u>	<u>-</u>
CHANGE IN NET POSITION	(2,043)	(784)
TOTAL NET POSITION, BEGINNING OF YEAR/PERIOD	<u>(784)</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR/PERIOD	<u><u>\$ (2,827)</u></u>	<u><u>\$ (784)</u></u>

CLEAN SUSTAINABLE ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2023 AND FOR THE PERIOD OF MARCH 15, 2022 THROUGH JUNE 30,
2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of administrative expenses	\$ (99)	\$ -
Payment of other expenses	(8)	-
Admin Fee Returned to BND	<u>49</u>	<u>-</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(58)</u>	<u>-</u>
NON-CAPITAL FINANCING ACTIVITIES		
Notes Payable, due to BND	<u>20,000</u>	<u>15,000</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>20,000</u>	<u>15,000</u>
INVESTING ACTIVITIES		
Investment income received	1	-
Loan interest received	366	67
Loans advanced	(20,012)	(15,000)
Proceeds from principal collections on loans	<u>-</u>	<u>-</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(19,645)</u>	<u>(14,933)</u>
NET CHANGE IN CASH	297	67
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR/PERIOD	<u>67</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR/PERIOD	<u>\$ 364</u>	<u>\$ 67</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (2,044)	\$ (784)
Adjustments to reconcile operating loss to net cash used for operating activities		
Adjustment for provision for credit loss	1,001	750
Increase in due to Bank of North Dakota	1,418	113
Reclassification of items to other activities		
Interest income on loans	<u>(433)</u>	<u>(79)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (58)</u>	<u>\$ -</u>

CLEAN SUSTAINABLE ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Clean Sustainable Energy Authority was established by Bank of North Dakota to support research, development, and technological advancements through partnerships and financial support for the large scale development and commercialization of projects, processes, activities, and technologies that reduce environmental impacts and increase sustainability of energy production and delivery. The purpose of the financial support is to enhance the production of clean sustainable energy, to make the state a world leader in the production of clean sustainable energy, and to diversify and grow the state's economy.

Loans made by the Authority may be up to fifty percent of project costs, with a minimum loan amount of ten million. The interest rate established for this program has been set at two percent. The maximum term of a loan for this program must be approved by the Industrial Commission based on a recommendation from the Authority.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Authority should include all component units over which the Authority exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority.

Based on that criteria, no organizations were determined to be part of the Authority. The Authority is included as part of the primary government in the State of North Dakota's reporting.

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

CLEAN SUSTAINABLE ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

All of the Authority's activity is with small businesses within the State of North Dakota. Concentrations of credit risk are present in the Authority.

Cash and Cash Equivalents

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

Loans

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

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

Allowance for Credit Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

CLEAN SUSTAINABLE ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 2 - DEPOSITS

Deposits

The value and bank balance of the Authority's cash deposits at June 30, 2023 was \$364. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

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

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 1,121	\$ -
Loans, noncurrent portion	<u>33,891</u>	<u>15,000</u>
Total loans	35,012	15,000
Allowance for credit losses	<u>1,751</u>	<u>750</u>
Total loans, net	<u>\$ 33,261</u>	<u>\$ 14,250</u>

Changes in the balances of loans are as follows:

Balance, June 30, 2021	\$ -
Loan advances	15,000
Principal collections	<u>-</u>
Balance, June 30, 2022	15,000
Loan advances	20,012
Principal collections	<u>-</u>
Balance, June 30, 2023	<u>\$ 35,012</u>

(continued on next page)

CLEAN SUSTAINABLE ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for credit losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year/period	\$ 750	\$ -
Provision for credit losses	<u>1,001</u>	<u>750</u>
Balance, end of year/period	<u>\$ 1,751</u>	<u>\$ 750</u>

There were no impaired loans as of June 30, 2023. There were no impaired loans as of June 30, 2022. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2023. There were no loans on nonaccrual status and no loans 90 days or more past due as of June 30, 2022.

NOTE 4 - RELATED PARTY TRANSACTIONS

House Bill 1015 of the 2021 Legislative Session authorized transfers up to two hundred fifty million through a line of credit extended by Bank of North Dakota to the Industrial Commission. As of June 30, 2023, the Authority has up to \$215,000 available for transfer.

House Bill 1014 of the 2023 Legislative Session increased the line of credit to \$390,000. The industrial commission shall request from the legislative assembly a deficiency appropriation if the Authority does not have sufficient funds.

The Authority is supervised and administered by the Industrial Commission. All cash accounts are deposited with the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. The Bank charged the program \$53 for administration fees during the year ended June 30, 2023, of which the Authority owed the Bank \$22 as of June 30, 2023. The Bank charged the program \$19 for administration fees during the period ended June 30, 2022, of which the Authority owed the Bank \$19 as of June 30, 2022

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-statement-of-net-position risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net position.

The Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-statement-of-net-position instruments. There was one outstanding commitment for \$100,000 to extend credit as of June 30, 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses.

CLEAN SUSTAINABLE ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 6 - NOTES PAYABLE

The Authority has entered into a revolving line of credit with Bank of North Dakota that provides up to two hundred fifty million to be extended by Bank of North Dakota to the Industrial Commission. Borrowings under the line of credit are to be used to support loans or loan guarantees issued from the Clean Sustainable Energy Fund. Borrowings under the line of credit bear interest at one month FHLB plus 1.4%, with a minimum floor of 1.75%. As of June 30, 2023, the Authority has borrowed \$35,012.

NOTE 7 - RISK MANAGEMENT

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

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

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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clean Sustainable Energy Authority (the Authority), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 2, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota
October 2, 2023



**Clean Sustainable Energy Authority
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Period of March 15, 2022 through June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 2, 2023



October 2, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Clean Sustainable Energy Authority (the Authority) as of and for the year ended June 30, 2023, and have issued our report thereon dated October 2, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated October 2, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023, and 2022, and the changes in its financial position and cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated October 2, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority’s auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023 and 2022

Water Infrastructure Revolving Loan Fund

WATER INFRASTRUCTURE REVOLVING LOAN FUND

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Independent Auditor's Report

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Water Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and 2022, and the respective changes in its financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Bismarck, North Dakota
September 21, 2023

WATER INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

The management discussion and analysis of the Water Infrastructure Revolving Loan Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2023 and 2022. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

The Water Infrastructure Revolving Loan Fund was established by North Dakota Century Code Section 6-09-49 to provide loans to political subdivisions, the Garrison Diversion Conservancy District, and the Lake Agassiz water authority for essential infrastructure projects. The Bank shall manage and administer the infrastructure revolving loan fund and the loans made from the fund. The Bank may deduct one-half of one percent of the outstanding loan balance as a service fee for administering the Fund.

The maximum amount of a loan may not exceed the cost of the project. The interest rate for this program has been set at the same rate as the revolving loan fund established under chapters 61-28.1 and 61-28.2. Amortized payments over the term of to be determined by the ND Department of Water Resources or the useful life of the project.

In accordance with House Bill 1431 of the 2021 Legislative Session, the Bank of North Dakota transferred all outstanding loans and moneys in the community water facility loan fund and all outstanding loans and moneys in the infrastructure revolving loan fund within the resources trust fund to the water infrastructure revolving loan fund on July 1, 2021.

There was one loan for \$1,100 with advances of \$1,004 made by the Fund during the year ended June 30, 2023. There were two loans for \$18,565 with advances of \$2,511 made by the Fund during the year ended June 30, 2022. As of June 30, 2023, there were fifty-two loans outstanding totaling \$39,975 with an allowance for credit losses of \$600 for net loans of \$39,375.

There was one loan commitment for \$60,000 as of June 30, 2023.

Funds available for investment in loans as of June 30, 2023 were \$24,884.

REQUIRED FINANCIAL STATEMENTS:

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

WATER INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash deposits	\$ 24,884	\$ 28,665
Loans, current portion	2,719	2,764
Interest receivable	237	226
	<u>27,840</u>	<u>31,655</u>
NON CURRENT LOANS, NET	<u>36,656</u>	<u>32,379</u>
Total assets	<u>\$ 64,496</u>	<u>\$ 64,034</u>
CURRENT LIABILITIES	<u>\$ 49</u>	<u>\$ 44</u>
NET POSITION - UNRESTRICTED	<u>64,447</u>	<u>63,990</u>
Total liabilities and net position	<u>\$ 64,496</u>	<u>\$ 64,034</u>

Cash Deposits

Cash and cash equivalents represent funds available for investment in loans. The decrease from 2022 to 2023 was primarily due to advances on loans.

Loans

As of June 30, 2023, there were fifty-two loans outstanding totaling \$39,975 with an allowance for credit losses of \$600 for net loans of \$39,375. As of June 30, 2022, there were fifty-four loans outstanding totaling \$35,552 with an allowance for loan losses of \$409 for net loans of \$35,143.

Net Position

Net position of the fund as of June 30, 2023 and 2022, was \$64,447 and \$63,990, respectively. Loans are funded directly from the net position of the Fund. The Fund is directed by the North Dakota Department of Water Resources. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

WATER INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES	\$ 761	\$ 733
OPERATING EXPENSES	<u>389</u>	<u>424</u>
OPERATING INCOME	372	309
NONOPERATING REVENUES	<u>85</u>	<u>20</u>
REVENUES BEFORE TRANSFERS	<u>457</u>	<u>329</u>
TRANSFERS IN	-	27,061
CHANGE IN NET POSITION	457	27,390
TOTAL NET POSITION, BEGINNING OF YEAR	<u>63,990</u>	<u>36,600</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 64,447</u>	<u>\$ 63,990</u>

Revenue

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans range from 1.5% to 3%.

Expenses

Administrative expenses were \$187 and \$174 for the years ended June 30, 2023 and 2022, respectively. This expense is paid to the Bank of North Dakota for administration of the Fund in the amount of one-half percent of outstanding loans. The provision for loan loss was \$191 and \$244 for the years ended June 30, 2023 and 2022, respectively. Other expenses include an independent audit of the financial records.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance.

WATER INFRASTRUCTURE REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

ECONOMIC FACTORS AND FUTURE OUTLOOK

In accordance with House Bill 1431 of the 2021 Legislative Session, the Bank of North Dakota transferred all outstanding loans and moneys in the community water facility loan fund and all outstanding loans and moneys in the infrastructure revolving loan fund within the resources trust fund to the water infrastructure revolving loan fund on July 1, 2021.

Senate Bill 2015 of the 2023 Legislative Session approved the Bank of North Dakota to extend a line of credit not to exceed \$100,000 to the Department of Water Resources to be transferred to the Fund as requested by the director of the department of water resources to provide local cost-share loans for projects approved by the state water commission pursuant to section 6-09-49.2.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

WATER INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash deposits at the Bank of North Dakota	\$ 24,884	\$ 28,665
Loans, current portion	2,719	2,764
Interest receivable	<u>237</u>	<u>226</u>
Total current assets	<u>27,840</u>	<u>31,655</u>
Noncurrent Assets		
Loans, net of allowance for credit losses of \$600 in 2023 and \$409 in 2022	<u>36,656</u>	<u>32,379</u>
Total assets	<u>\$ 64,496</u>	<u>\$ 64,034</u>
LIABILITIES		
Current Liabilities		
Due to the Bank of North Dakota	<u>\$ 49</u>	<u>\$ 44</u>
NET POSITION		
Unrestricted	<u>64,447</u>	<u>63,990</u>
Total liabilities and net position	<u>\$ 64,496</u>	<u>\$ 64,034</u>

WATER INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 761</u>	<u>\$ 733</u>
OPERATING EXPENSES		
Administrative fees	187	174
Audit expenses	11	6
Provision for credit loss	<u>191</u>	<u>244</u>
Total operating expenses	<u>389</u>	<u>424</u>
OPERATING INCOME	372	309
NONOPERATING REVENUES		
Interest on deposits	<u>85</u>	<u>20</u>
INCOME BEFORE TRANSFERS	457	329
TRANSFERS IN	<u>-</u>	<u>27,061</u>
CHANGE IN NET POSITION	457	27,390
TOTAL NET POSITION, BEGINNING OF YEAR	<u>63,990</u>	<u>36,600</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 64,447</u></u>	<u><u>\$ 63,990</u></u>

WATER INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Payment of administrative fees to the Bank of North Dakota	\$ (182)	\$ (148)
Payment of audit expense	<u>(11)</u>	<u>(6)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(193)</u>	<u>(154)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfers from State Water Commission RLF	<u>-</u>	<u>4,882</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>4,882</u>
INVESTING ACTIVITIES		
Deposit interest income received from the Bank of North Dakota	85	20
Loan interest received	749	725
Loans advanced	(7,210)	(2,563)
Proceeds from principal collections on loans	<u>2,788</u>	<u>3,118</u>
NET CASH FROM INVESTING ACTIVITIES	<u>(3,588)</u>	<u>1,300</u>
NET CHANGE IN CASH	(3,781)	6,028
CASH, BEGINNING OF YEAR	<u>28,665</u>	<u>22,637</u>
CASH, END OF YEAR	<u><u>\$ 24,884</u></u>	<u><u>\$ 28,665</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 372	\$ 309
Adjustments to reconcile operating income to net cash used for operating activities		
Reclassification of loan interest income to other activities	(761)	(733)
Adjustment for provision for credit loss	191	244
Increase in due to the Bank of North Dakota	<u>5</u>	<u>26</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (193)</u></u>	<u><u>\$ (154)</u></u>

WATER INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Water Infrastructure Revolving Loan Fund was established by North Dakota Century Code Section 6-09-49 to provide loans to political subdivisions, the Garrison Diversion Conservancy District, and the Lake Agassiz water authority for essential infrastructure projects. The Bank shall manage and administer the infrastructure revolving loan fund and the loans made from the fund. The Bank may deduct one-half of one percent of the outstanding loan balance as a service fee for administering the Fund.

The maximum amount of a loan may not exceed the cost of the project. The interest rate for this program has been set at the same rate as the revolving loan fund established under chapters 61-28.1 and 61-28.2. Amortized payments over the term of to be determined by the ND Department of Water Resources or the useful life of the project.

In accordance with House Bill 1431 of the 2021 Legislative Session, the Bank of North Dakota transferred all outstanding loans and moneys in the community water facility loan fund and all outstanding loans and moneys in the infrastructure revolving loan fund within the resources trust fund to the water infrastructure revolving loan fund on July 1, 2021.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Fund Accounting

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

Basis of Accounting and Measurement Focus

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

WATER INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

All of the Fund's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the construction and operation of water infrastructure facilities.

Cash

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

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate of 1.5%-3% on the unpaid principal balance.

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

Allowance for Loan Losses

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

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

Credit Related Financial Instruments

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

Operating and Non-Operating Revenues

Operating revenues consist of interest income on the loans. All other revenues are classified as non-operating.

WATER INFRASTRUCTURE REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

(Dollars in Thousands)

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Fund's cash deposits as of June 30, 2023 and 2022 was \$24,884 and \$28,665, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - LOANS

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

	<u>2023</u>	<u>2022</u>
Loans, current portion	\$ 2,719	\$ 2,764
Loans, noncurrent portion	<u>37,256</u>	<u>32,788</u>
Total loans	39,975	35,552
Allowance for loan losses	<u>(600)</u>	<u>(409)</u>
Total loans, net	<u>\$ 39,375</u>	<u>\$ 35,143</u>

Changes in the balances of loans follows:

	<u>Amount</u>
Balance, June 30, 2021	\$ 13,973
Loan advances	2,563
Principal collections	(3,118)
Transfers in	<u>22,134</u>
Balance, June 30, 2022	35,552
Loan advances	7,210
Principal collections	<u>(2,787)</u>
Balance, June 30, 2023	<u>\$ 39,975</u>

(continued on next page)

WATER INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

Changes in allowance for loan losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 409	\$ 165
Provision for loan losses	<u>191</u>	<u>244</u>
Balance, end of year	<u>\$ 600</u>	<u>\$ 409</u>

There were no impaired loans as of June 30, 2023. No loans were on nonaccrual status and no loans were 90 days or more past due as of June 30, 2023.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. Administrative fee expense charged by the Bank totaled \$187 and \$174 for the year ended June 30, 2023 and 2022, respectively, of which the Fund owed the Bank \$49 as of June 30, 2023 and \$44 as of June 30, 2022.

Senate Bill 2015 of the 2023 Legislative Session approved the Bank of North Dakota to extend a line of credit not to exceed \$100,000 to the Department of Water Resources to be transferred to the Fund as requested by the director of the department of water resources to provide local cost-share loans for projects approved by the state water commission pursuant to section 6-09-49.2.

NOTE 5 - LOAN COMMITMENTS

The Fund is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of net position.

The Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-balance-sheet instruments. There was one loan commitment for \$60,000 as of June 30, 2023.

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

WATER INFRASTRUCTURE REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(Dollars in Thousands)

NOTE 6 - RISK MANAGEMENT

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

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

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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Water Infrastructure Revolving Loan Fund (the Fund), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated September 21, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 21, 2023



**Water Infrastructure Revolving Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

Yes. In the prior year there was one internal control deficiency identified as a result of the audit. The recommended adjustment was made by management.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Sully LLP

Bismarck, North Dakota
September 21, 2023



September 21, 2023

To the Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Water Infrastructure Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2023, and have issued our report thereon dated September 21, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 21, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements is:

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the fund's financial statements relate to Note 3 – Loans.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023, and 2022, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 21, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota



Financial Statements
June 30, 2023

Beginning Farmer Revolving Loan Fund

BEGINNING FARMER REVOLVING LOAN FUND

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Independent Auditor's Report

Governor of North Dakota and
the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Beginning Farmer Revolving Loan Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the period ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023, and the respective changes in its financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of Beginning Farmer Revolving Loan Fund are intended to present the financial position and changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of Beginning Farmer Revolving Loan Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and the changes in its financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
September 27, 2023

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023
(Dollars in Thousands)

The management discussion and analysis of the Beginning Farmer Revolving Loan Fund (the Fund) financial performance provides an overview of the Fund's financial activities for the period of January 1, 2023 through June 30, 2023. The fund previously reported its financial statements following the calendar year with a December 31 year-end. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

Beginning Farmer Real Estate Loans:

Beginning Farmer Real Estate loans are funded directly by Bank of North Dakota (BND), with the Fund providing buy down funds, to the extent available, to reduce the borrower's interest rate by 2% for the first five years of the loan. The borrower is limited to \$750 in total loans. There were 31 loans totaling \$11,496 made during the period ended June 30, 2023 with this program. These loans will require \$1,225 in buy down interest during the life of the loans. There are currently 399 loans outstanding totaling \$122,876 made directly by the Bank of North Dakota that are receiving buy down interest from the Fund.

Beginning Farmer Chattel Loans Originated out of the Fund:

There are two components to this program. These loans are made in conjunction with a lead lender. BND is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. These loans are secured by a first security interest on the chattel with a maximum loan to collateral value of 80%. The borrowers are limited to \$750 in total loans. The second component of this program provides for interest buy down on the lead lender's share of the loan. The lead lender's interest rate may not exceed 2% over BND's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy down funds are provided through the chattel loan program, to the extent available, to reduce the borrower's interest rate by up to 4% subject to a minimum rate of 1% to the borrower.

There were 62 loans totaling \$6,798 made during the period ended June 30, 2023 with this program, of which BND participated in \$3,543. These loans will utilize \$533 in buy down interest.

Beginning Farmer Revolving Fund Balance Summary:

Cash available to provide interest buy down to beginning farmers for both chattel and real estate purchases was \$1,489 as of June 30, 2023.

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023
(Dollars in Thousands)

Invest Loans Funded by BND and a Lead Lender:

Section 6-09-15.5 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000 can be transferred from the Fund during a biennium. There were no new Envest loans made during 2023.

REQUIRED FINANCIAL STATEMENTS:

The Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheets and statements of revenues, expenditures, and changes in fund balance. The balance sheet provides readers the assets and liabilities of the Fund, with the differences between the two reported as fund balance. The statement of revenues, expenditures, and changes in fund balance identify the operating performance of the Fund for the period ended June 30, 2023.

CONDENSED BALANCE SHEET
June 30, 2023

	<u>2023</u>
ASSETS	
Cash deposits	\$ 1,489
Prepaid interest	<u>17,430</u>
Total assets	<u>\$ 18,919</u>
FUND BALANCE	<u>\$ 18,919</u>

Fund Balance

As of June 30, 2023, fund balance was \$18,919. As described in Note 1, direct real estate loan and chattel loan interest buydowns are funded directly from the fund balance of the Fund. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023
(Dollars in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
June 30, 2023

	<u>2023</u>
OPERATING REVENUES	\$ -
OPERATING EXPENDITURES	<u>1,625</u>
OPERATING LOSS	(1,625)
NONOPERATING REVENUES	<u>3</u>
LOSS BEFORE TRANSFERS	(1,622)
TRANSFERS, NET	<u>2,400</u>
CHANGE IN FUND BALANCE	778
FUND BALANCE, BEGINNING OF YEAR	<u>18,141</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 18,919</u></u>

Expenditures

Buy down interest is paid to the banks that participate in the various programs of the Fund. Other expenses are for the independent audit of the financial records and miscellaneous expenditures incurred in connection with loan servicing.

Nonoperating Revenue

Nonoperating revenues represent interest earned on the cash balance as well as recoveries of previously charged off loans. Since the Fund no longer carries loans or an allowance, recoveries are recorded as nonoperating revenues.

Changes in Fund Balance

Fund balance increased by \$778 or 4.3% for the period ended June 30, 2023.

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023
(Dollars in Thousands)

ECONOMIC CONDITION AND OUTLOOK

Senate Bill 2197 of the 2019 Legislative Assembly added a ten year fixed rate option for borrowers.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$15,000,000 from the Bank's current earnings and undivided profits to the Beginning Farmer fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of June 30, 2023, no funds have been transferred.

CONTACTING THE LOAN FUND'S FINANCIAL MANAGEMENT:

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

BEGINNING FARMER REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2023
(Dollars in Thousands)

2023

ASSETS

Current Assets

Cash deposits at the Bank of North Dakota

\$ 1,489

Prepaid interest, current portion

2,911

Total current assets

4,400

Noncurrent Assets

Prepaid interest

14,519

Total noncurrent assets

14,519

Total assets

\$ 18,919

FUND BALANCE

\$ 18,919

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
JUNE 30, 2023
(Dollars in Thousands)

	<u>2023</u>
OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENDITURES	
Buy-down interest	1,619
Audit expenses	6
	<u>1,625</u>
OPERATING LOSS	(1,625)
NONOPERATING REVENUES	
Income from cash deposits	3
	<u>3</u>
LOSS BEFORE TRANSFERS	<u>(1,622)</u>
TRANSFERS	
Transfer from Bank of North Dakota	1,000
Transfer from AG PACE	1,000
Transfer from PACE	400
NET TRANSFERS IN	<u>2,400</u>
CHANGE IN FUND BALANCE	778
FUND BALANCE, BEGINNING OF YEAR	<u>18,141</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 18,919</u></u>

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(Dollars in Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.8 of the North Dakota Century Code (NDCC) established the Beginning Farmer Revolving Loan Fund (Fund). The purpose of the Fund is to make or participate in loans to North Dakota beginning farmers for the purchase of agricultural real estate, equipment, and livestock. The Fund is a revolving fund, and all moneys transferred into the fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest on loans made from the fund are appropriated for the purpose of providing loans and to supplement the interest rate on loans to beginning farmers.

The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund. Four programs have been established under the Fund, including two direct loan programs and two interest buy-down programs.

Direct Real Estate Loans

Direct real estate loans may not exceed 75% of the current appraised value of the farm real estate on which the Fund receives a first mortgage as security. The total loan amount was increased from \$100 to \$150 in 1999, to \$250 in 2005, to \$400 in 2009, to \$500 in 2013, and to \$750 in 2018. The borrower is restricted to a lifetime cap of \$750 under this program. The term of the loan may not exceed 30 years. A loan made from the Fund must have either a fixed rate at 1% below the Bank of North Dakota's then current base rate for ten years or 1% below the Bank's then current base rate for the first five years with a maximum rate of six percent per year and variable at one percent below the Bank's current base rate for the second five years. During the second five years, the variable rate must be adjusted annually on the anniversary date. The rate during the remaining term of the loan floats at the Bank's base rate as in effect at that time.

Interest Buy Downs on Real Estate Loans

The Bank of North Dakota makes direct loans to beginning farmers for the purchase of farm real estate. The loans are restricted to the same terms as indicated above. The interest rate for the first five years is supplemented by 2% per annum from the Fund.

Chattel Loans

A participation loan for the purchase of equipment or livestock may not exceed 80% of the agricultural collateral on which the Fund receives a first security interest as collateral. The Fund is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. The total loan amount was increased from \$250 to \$400 in 2009, from \$400 to \$500 in 2013, and from \$500 to \$750 in 2018. The borrower is restricted to a lifetime cap of \$750 under this program for the purchase of equipment or livestock. The term of the loan may not exceed seven years. The interest rate on the Fund's share of the chattel loan will be fixed at 1% below the Bank of North Dakota's then current base rate for the first five years of the loan with maximum interest rate of 6% and variable at 1% below the Bank's then current base rate adjusted annually for the next two years.

Interest Buy Downs on Chattel Loans

The lead lender's interest rate of the chattel loan will be set according to prevailing market rates, but may not exceed 2% over the Bank of North Dakota's base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy down funds, to the extent they are available, are used to reduce the lead lender's rate by 4% subject to a minimum rate of 1% to the borrower.

BEGINNING FARMER REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(Dollars in Thousands)

Interest Buy Downs on Envest Loans

Section 6-09.8 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000 can be transferred from the Fund during a biennium.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

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

Accounting Standards

The Program follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

The Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction that can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using the current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

Credit Related Financial Instruments

In the ordinary course of business, the Program has entered into commitments to buy down interest rates on loans. Such financial instruments are recorded when they are funded.

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(Dollars in Thousands)

Fund Balance Classifications

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Fund’s cash deposits as of June 30, 2023 was \$1,489. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

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

NOTE 3 - PREPAID INTEREST AND COMMITMENTS

A description of the interest buy down programs is included under “Nature of Operations” in Note 1. The monies that are being paid to the Bank of North Dakota and the other lead lenders to buy down the interest rate for qualifying loans is paid in advance. Prepaid interest is amortized over the life of the loans based upon the repayment terms of the loan for chattel and Envest loans. Prepaid interest is amortized over five years based upon the repayment terms of the loan for real estate loans. A summary of the balances of prepaid interest follows:

	<u>2023</u>
Prepaid interest, current portion	\$ 2,911
Prepaid interest, noncurrent portion	<u>14,519</u>
Total prepaid interest	<u><u>\$ 17,430</u></u>

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(Dollars in Thousands)

Changes in the balances of prepaid interest follow:

	Real Estate Loans (BND)	Chattel Loans (Other Banks)	Envest Loans	Total Prepaid Interest
Balance, December 31, 2021	\$ 9,835	\$ 1,377	\$ -	\$ 11,212
Additions, net of returns	7,901	971	-	8,872
Amortization	<u>(2,209)</u>	<u>(475)</u>	<u>-</u>	<u>(2,684)</u>
Balance, December 31, 2022	15,527	1,873	-	17,400
Additions, net of returns	1,164	485	-	1,649
Amortization	<u>(1,221)</u>	<u>(398)</u>	<u>-</u>	<u>(1,619)</u>
Balance, June 30, 2023	<u>\$ 15,470</u>	<u>\$ 1,960</u>	<u>\$ -</u>	<u>\$ 17,430</u>

The prepaid interest at the Bank of North Dakota is being utilized to buy down the interest rate on 399 loans with outstanding principal balances of \$122,876 as of June 30, 2023. The prepaid interest at other lead lenders is being utilized to buy down the interest rate on chattel loans made by participating banks involved with the chattel loan program.

NOTE 4 - RELATED PARTY TRANSACTIONS

During the period ending June 30, 2023, \$1,000 was transferred in from the Bank of North Dakota's undivided profits, \$1,000 in from the AG PACE Fund, and \$400 in from the PACE Fund.

The 2023 North Dakota Legislature passed House Bill 1014 that authorizes the Bank of North Dakota to transfer \$15,000,000 from the Bank's current earnings and undivided profits to the Beginning Farmer fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of June 30, 2023, no funds have been transferred.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buy downs on real estate and chattel loans, which is included in prepaid interest on the Fund's statement of condensed balance sheets (See Note 3).

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(Dollars in Thousands)

NOTE 5 - RISK MANAGEMENT

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

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

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

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

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Governor of North Dakota and
the Legislative Assembly
Beginning Farmer Revolving Loan Fund
Bismarck, North Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Beginning Farmer Revolving Loan Fund (the Fund), a special revenue fund of the State of North Dakota, as of and for the period ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 27, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not yet been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bismarck, North Dakota
September 27, 2023

**Beginning Farmer Revolving Loan Fund
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Period Ended June 30, 2023**

Governor of North Dakota and
the Legislative Assembly
Beginning Farmer Revolving Loan Fund
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings.

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

No

Audit Committee Communications:

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

None

2. Identify any significant accounting estimates and the process used by management to determine those estimates.

Management's estimate of the Amortization of Prepaid Interest is based on the estimated life of the loan for Chattel and Envest loans, but over ten years based on repayment terms for Real Estate loans. We evaluated key factors and assumptions used to develop the Amortization of Prepaid Interest in determining that it is reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 27, 2023



September 27, 2023

Governor of North Dakota and
the Legislative Assembly
Beginning Farmer Revolving Loan Fund
Bismarck, North Dakota

We have audited the financial statements of Beginning Farmer Revolving Loan Fund (the Fund) as of and for the period ended June 30, 2023, and have issued our report thereon dated September 27, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated June 29, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated September 27, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

Management's estimate of the Amortization of Prepaid Interest is based on the estimated life of the loan for Chattel and Envest loans, but over ten years based on repayment terms for Real Estate loans. We evaluated the key factors and assumptions used to develop the Amortization of Prepaid Interest and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosure affecting the Fund's financial statements.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph:

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023, and the changes in its financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated September 27, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota

**BANK OF NORTH DAKOTA
ADVISORY BOARD TELECONFERENCE
NON-CONFIDENTIAL MINUTES
Wednesday, September 27, 2023 – 1:30 p.m. CT
Minnkota Power Cooperative – 5301 32nd Ave S, Grand Forks, ND 58201**

MEMBERS PRESENT: Karl Bollingberg, Chairman
Dennis Johnson, Vice Chairman
Pat Clement
Christie Obenauer
Jean Voorhees
Bill Price
Brenda Foster

ALSO PRESENT: Todd Steinwand, BND
Sara Schumacher, BND
Rob Pfennig, BND
Alison Anderson, BND
Kirby Evanger, BND
Lori Leingang, BND
Christy Steffenhagen, BND
Kelvin Hullet, BND
Craig Hanson, BND

**ALSO PRESENT VIA
PHONE:** Gus Staahl, BND
Karen Tyler, Industrial Commission

Chairman Bollingberg called the meeting to order at 1:30 p.m.

Chairman Bollingberg adjourned the nonconfidential portion of the meeting at 1:30 p.m. and the Advisory Board went into Executive Session pursuant to N.D.C.C. 6-09-35 to discuss those items on the agenda under Bank of North Dakota Confidential Business.

The Executive Session began at 1:30 p.m. and was attended by Karl Bollingberg, Dennis Johnson, Pat Clement, Christie Obenauer, Jean Voorhees, Bill Price, Brenda Foster Todd Steinwand, Sara Schumacher, Rob Pfennig, Kirby Evanger, Lori Leingang, Christy Steffenhagen, Kelvin Hullet, Craig Hanson, Gus Staahl, Karen Tyler

The following items were considered during Executive Session:

- Finance and Credit Committee Reports Recap
- Confidential Finance and Credit Committee Minutes (August 16, 2023)
- Confidential Advisory Board Minutes (August 17, 2023)
- Confidential Investment Committee Minutes (August 02, 09, 16, 23, 30, 2023)

The Executive Session adjourned at 1:50 p.m.

Chairman Bollingberg reconvened the Nonconfidential portion of the meeting.

Summary of Recommendations (Confidential Session):

- A motion was made by Ms. Clement to approve the consent agenda as presented. Seconded by Mr. Johnson. Members Bollingberg, Johnson, Clement, Obenauer, Voorhees, Price, Foster voted aye. Motion carried.

Brenda Foster provided a Finance and Credit Committee Reports Recap.

A discussion on the BND General Awareness Campaign was held.

A discussion on the formulation of BND Dividend Policy was held.

Todd Steinwand and Lori Leingang presented for approval the Executive Succession Plan. A motion was made by Mr. Price to approve the plan as presented. Seconded by Ms. Obenauer. Members Bollingberg, Johnson, Clement, Obenauer, Voorhees, Price, Foster voted aye. Motion carried.

BND Advisory Board Members presented a report of activity in their region of ND.

BND Executive Team provided services area updates.

Consent Agenda:

- Nonconfidential Finance and Credit Committee Minutes (August 16, 2023)
- Nonconfidential Leadership Development and Compensation Committee Minutes (August 17, 2023)
- Nonconfidential Advisory Board Minutes (August 17, 2023)
- Nonconfidential Investment Committee Minutes (August 02, 09, 16, 23, 30, 2023)

A motion was made by Ms. Clement to approve the consent agenda as presented. Seconded by Ms. Voorhees. Members Bollingberg, Johnson, Clement, Obenauer, Voorhees, Price, Foster voted aye. Motion carried.

An Advisory Board Discussion was held.

The next Advisory Board meetings will be held:

- Finance and Credit Committee Meeting – Wednesday, October 18, 2023, 1:00 p.m., Teleconference
- Risk and Audit Committee Meeting – Thursday, October 19, 2023, 10:00 a.m., 3rd Floor Missouri River Room 301
- Group Advisory Board Meeting – Thursday, October 19, 2023, 1:00 p.m., 3rd Floor Missouri River Room 301

Being no further Bank of North Dakota business, Chairman Bollingberg adjourned the nonconfidential portion of the meeting at 3:30 p.m.

Sara Schumacher, Executive Assistant

**BANK OF NORTH DAKOTA
ADVISORY BOARD TELECONFERENCE
NONCONFIDENTIAL MINUTES
Wednesday, September 27, 2023 – 1:30 p.m. CT
Minnkota Power Cooperative – 5301 32nd Ave S, Grand Forks, ND 58201**

MEMEBRS PRESENT: Brenda Foster, Chairman
Christie Obenauer
Bill Price
Karl Bollingberg (non-voting member)
Dennis Johnson (non-voting member)
Pat Clement (non-voting member)
Jean Voorhees (non-voting member)

ALSO PRESENT: Todd Steinwand, BND
Sara Schumacher, BND
Rob Pfennig, BND
Alison Anderson, BND
Kirby Evanger, BND
Lori Leingang, BND
Christy Steffenhagen, BND
Kelvin Hullet, BND
Craig Hanson, BND

**ALSO PRESENT VIA
PHONE:** Gus Staahl, BND
Karen Tyler, Industrial Commission

Chairman Foster called the meeting to order at 1:30 p.m.

Rob Pfennig presented the August 2023 Monthly Financial Summary.

The next Advisory Board meeting will be held Wednesday, October 18, 2023.

Chairman Foster adjourned the nonconfidential portion of the meeting at 1:30 p.m. and the Advisory Board went into Executive Session pursuant to N.D.C.C. 06-09-35 to discuss those items on the agenda under Bank of North Dakota Confidential Business.

The Executive Session began at 1:30 p.m. and was attended by Brenda Foster, Christie Obenauer, Bill Price, Karl Bollingberg, Dennis Johnson, Pat Clement, Jean Voorhees, Todd Steinwand, Sara Schumacher, Rob Pfennig, Alison Anderson, Kirby Evanger, Lori Leingang, Christy Steffenhagen, Kelvin Hullet, Craig Hanson, Gus Staahl, Karen Tyler

The following items were considered during Executive Session

- Problem Loans as of 08/31/2023

The Executive Session adjourned at 1:50 p.m.

Chairman Foster reconvened the Nonconfidential portion of the meeting.

Being no further Bank of North Dakota business, Chairman Foster adjourned the nonconfidential portion of the meeting at 1:55 p.m.

Sara Schumacher, Executive Assistant

RatingsDirect®

Bank of North Dakota

Primary Credit Analyst:

Hanryano Y Lethé Sarungallo, New York (1) 212-438-0464; hanryano.l@spglobal.com

Secondary Contact:

Nicholas J Wetzel, CFA, Englewood + 303-721-4448; nicholas.wetzel@spglobal.com

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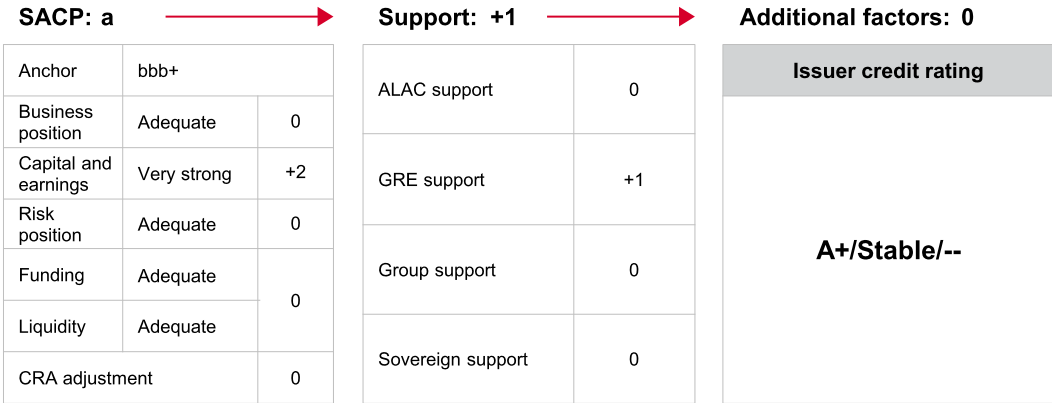
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Bank of North Dakota

Rating Score Snapshot

Issuer Credit Rating
A+/Stable/--



ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Very strong risk-adjusted capital.	Geographic concentration in North Dakota.
Stable ownership by the state of North Dakota since 1919.	Direct and indirect lending exposure to the cyclical energy and agriculture sectors.
Strong credit quality and conservative management.	Subject to annual capital transfers to North Dakota.

We see a high likelihood of support from the state of North Dakota in case of stress at the bank. Bank of North Dakota (BND) is the only remaining state-owned bank in the continental U.S. It partners with private-sector banks in providing credit to North Dakota-based businesses, holds the deposits of the state and certain agencies, and provides disaster assistance lending.

BND has one of the highest risk-adjusted capital (RAC) ratios for rated U.S. banks and we expect it to maintain very strong capital levels. However, capital ratios could decline if net income is less than capital transfers (dividends) to the state's general fund and various other initiatives funded by BND. The North Dakota legislature determines appropriations from the general fund every legislative session. However, these dividends have not typically exceeded net income by a large enough amount to significantly affect the bank's capitalization.

While the bank has higher nonperforming assets (NPAs) than peers, these rarely translate to high credit losses, and BND maintains a robust loan loss reserve. As of June 30, 2023, adjusted NPAs excluding Troubled Debt Restructurings were 0.98% of loans and real estate owned, though a portion of these were residential loans guaranteed by the federal government or student loans guaranteed by the state of North Dakota. BND has elevated exposures to cyclical industries such as energy and agriculture, but credit losses have been minimal. Over the past 10 years, the net charge-off (NCO) rate has been under 15 basis points (bps) annually despite significant energy and agricultural commodity price volatility, which we think reflects BND's strong credit selection and underwriting. Furthermore, the bank maintains a loan loss reserve of 1.73% of total loans and 1.89% of nonguaranteed loans--among the highest of rated U.S. banks.

Outlook

The stable outlook on BND is based on S&P Global Ratings' view that over the next two years the bank will maintain very strong capital and appropriately manage its credit risk. We also expect that there will be no change in BND's policy role or link to the state of North Dakota. In addition, we expect the bank to continue its prudent management of funding and liquidity as interest rates remain higher for longer.

Downside scenario

Because we base our issuer credit rating on BND on a combination of its stand-alone credit profile (SACP) and likelihood of support from the state of North Dakota, we do not expect to lower the rating absent a sharp negative change to either the SACP or our rating on North Dakota, or some combination of more modest changes to both. For instance, we would lower the rating if either the SACP or our rating on the state fell by at least three notches.

Since we factor in more uplift to our 'AA' deposit ratings for BND, we would lower those ratings even if our rating on the state fell by a notch.

Upside scenario

An upgrade of BND would require a one-notch improvement in either the rating on the state of North Dakota or BND's SACP. We see a higher SACP as unlikely given the cyclical nature of the state's revenue and the interdependence between the state and BND.

Key Metrics

Bank of North Dakota--Key ratios and forecasts

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	-3.8	23.2	6.2-7.5	16.7-20.5	3.4-4.1
Growth in customer loans	-2.5	14.6	4.1-5.0	4.0-4.9	4.0-4.9
Growth in total assets	29.5	1.7	2.9-3.5	3.4-4.1	3.3-4.1

Bank of North Dakota--Key ratios and forecasts (cont.)

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Net interest income/average earning assets (NIM)	2.5	2.6	2.2-2.5	2.6-2.8	2.6-2.8
Cost to income ratio	17.7	14.5	13.9-14.6	12.3-12.9	12.4-13.1
Return on average common equity	15.2	19.3	18.7-20.6	21.3-23.5	19.4-21.4
Return on assets	1.6	1.9	1.7-2.1	2.0-2.4	2.0-2.4
New loan loss provisions/average customer loans	0.1	N.M.	0.2-0.2	0.2-0.2	0.2-0.2
Net charge-offs/average customer loans	0.1	0	0.1-0.1	0.2-0.2	0.1-0.1
Risk-adjusted capital ratio	22.7	20.3	18.8-19.7	19.9-20.9	21.2-22.2

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin. N.M.--Not meaningful.

Anchor: 'bbb+' Starting Point For Banks Operating Only In The U.S.

Our anchor for a bank operating mainly in the U.S. is 'bbb+', based on an economic risk score of '3' and an industry risk score of '3'. The U.S.'s diversified, high-income, and resilient economy underpins our assessment of economic risk, which we consider to have a stable trend. In their base case, S&P Global Ratings economists expect multiple quarters of below-potential growth with monetary policy rates staying higher for longer and the balance of risks tilted to the downside. We believe banks in the country generally have strong enough balance sheets and earnings power to weather such a period or at least a moderate downturn.

Our view of industry risk in the U.S. balances the regulatory enhancements made after the global financial crisis, the relatively good risk-adjusted profitability of the banking system, and the country's deep capital markets against its history of periodic financial crises and the complexity of the financial and regulatory system. The trend on industry risk is stable, reflecting further enhancements to regulation that are likely to follow the bank failures in the first half of 2023, a declining but still high share of deposit funding, and our expectation that banks will continue to generate sufficient risk-adjusted profits to build capital.

Business Position: Unique Relationship With The State Of North Dakota And Conservative Management Strategy

BND benefits from its well-established history in North Dakota, record of high profitability and robust credit quality, and good financial governance. However, factors like high geographic concentration, a very low proportion of noninterest income, small domestic market share, and less regulatory oversight relative to most commercial banks roughly offset BND's positive factors.

BND has a long, stable history in North Dakota. Headquartered in Bismarck, BND is the only state-owned lender in the continental U.S. The bank was established by the state legislature in 1919 in response to a shortage of lenders in the state willing to support the credit needs of North Dakota farmers and businesses. Driven by its primary role in financing economic development in the state, BND grew rapidly, particularly from 2012, when North Dakota became a large producer of shale energy.

The bank acts as a lender, a correspondent bank to private-sector financial institutions in North Dakota, the agent of several state-legislated programs, and a depository for state agency funds--supporting our view of BND's very strong link to the state's government.

We view BND's management strategy as conservative and supportive of the bank's business goals, as well as the larger North Dakota community. BND's management closely monitors economic activity in the state and coordinates disaster relief programs to assist borrowers in stress and identify borrowing needs of communities in North Dakota.

Capital And Earnings: Very Strong Capital Ratios And Good Earnings Generation

BND has a high RAC ratio, strong core earnings generation, and very low operating costs. We expect BND to generate strong earnings and maintain high capital ratios amid higher interest rates and after a one-time capital transfer that temporarily impacted its capital.

The S&P Global Ratings RAC ratio for the bank was 18.5% as of June 30, 2023, by our calculation, down significantly from 22% in the previous year period because of a large capital transfer to the state of North Dakota at the end of the 2021-2023 biennium, which ended June 30, 2023. That said, BND's RAC ratio remains the highest of all U.S. rated banks. We expect the RAC ratio will likely increase over the next several years because we expect net income during the 2023-2025 biennium (July 1, 2023-June 30, 2025) to comfortably exceed the projected capital transfers to the state. Therefore, we expect the RAC ratio to remain comfortably in the very strong category (above 15%) over the next two years.

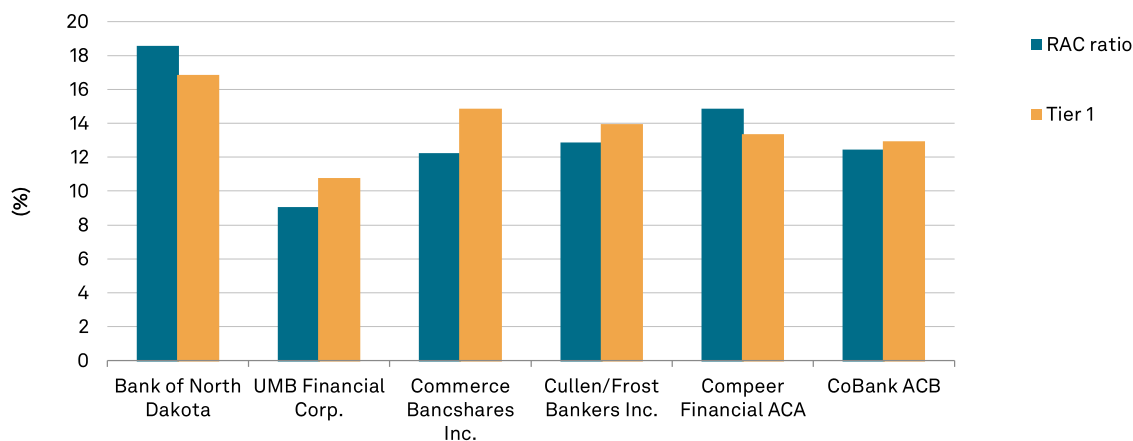
The bank makes capital transfers to the state's general fund and assists other state programs through dividend contributions. Historically, these dividends have fluctuated depending on the state's needs and the capital needs of the bank. In 2022, dividends were \$30 million out of BND's net income of \$191 million. For the first half of 2023, the bank distributed \$161 million, mainly to the state's general fund but also to buydown programs and other state programs. For the 2023-2025 biennium, BND expects the state to require a \$233 million capital transfer.

BND's earnings have been strong and consistent over the past few years despite its heavy reliance on spread-based income. We expect earnings to remain somewhat stable for the remainder of 2023--absent any material credit issues--as the state economy continues to attract big projects and benefit from higher energy prices. BND's very low operating costs, tax exemption, and lack of deposit insurance premiums bolster its earnings capacity. That said, the company reported 7.35% lower preprovision earnings in the first half of 2023. This is due to the bank paying higher interest rates for deposits, as it benchmarks its deposit rates to the average of the 15 largest banks in the state by deposit market share.

Noninterest income remains minimal as 98% of revenue is from net interest income. Positively though, due to its low overhead expenses, BND's return on average assets remained high at 1.87% through the first half of 2023, compared to 1.89% at year-end 2022.

Chart 1**Bank of North Dakota's risk-adjusted capital exceeds that of peers**

As of June 30, 2023



Source: S&P Global Ratings.

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Risk Position: Concentrations In Cyclical Portfolios Offset By Good Asset Quality

BND benefits from its historically strong asset quality and well-reserved allowance for credit losses, offset by its substantial concentrations, including energy and agricultural lending. Overall, BND's asset quality remains solid, reflecting careful underwriting and well-managed concentrations.

BND continues to have higher energy exposures than most rated U.S. banks as energy is an important sector in the North Dakota economy--though, positively, the proportion of oil country exposure remained below its peak from the previous decade. Energy loan exposure (including oil services, refining, ethanol production, power generation, mining, energy marketing, and natural gas distribution) amounted to \$636 million as of June 30, 2023, which is 11.8% of total loans. Energy prices have rebounded since the pandemic, and hotel occupancies in the oil-producing regions have improved. North Dakota's unemployment rate continues to be among the lowest in the country at 1.9% as of September 2023. The rebound in energy prices has supported the credit performance of the bank's direct and indirect energy loan portfolios as oil production and employment in oil-producing geographies has been consistent over the last two years.

Overall, the level of adjusted NPAs excluding troubled debt restructurings has increased 33 bps from year-end 2022 to 0.98% due to a deterioration in some large commercial credits. That said, the high degree of guarantees helps support the bank's credit quality, with 29% of the total loan portfolio either fully or partially guaranteed: residential loans by the federal government and student loans by the state of North Dakota.

The commercial portfolio (excluding agriculture), which has the lowest level of guarantees, has generally maintained

steady NPAs and currently 1% of that portfolio is over 90 days past due--the second highest by loan category. We expect the proportion of guaranteed loans and loan portfolio diversification to decline over time as BND has exited the underwriting and servicing of new residential loans and has collaborated with the North Dakota Housing Finance Agency, which performs similar services.

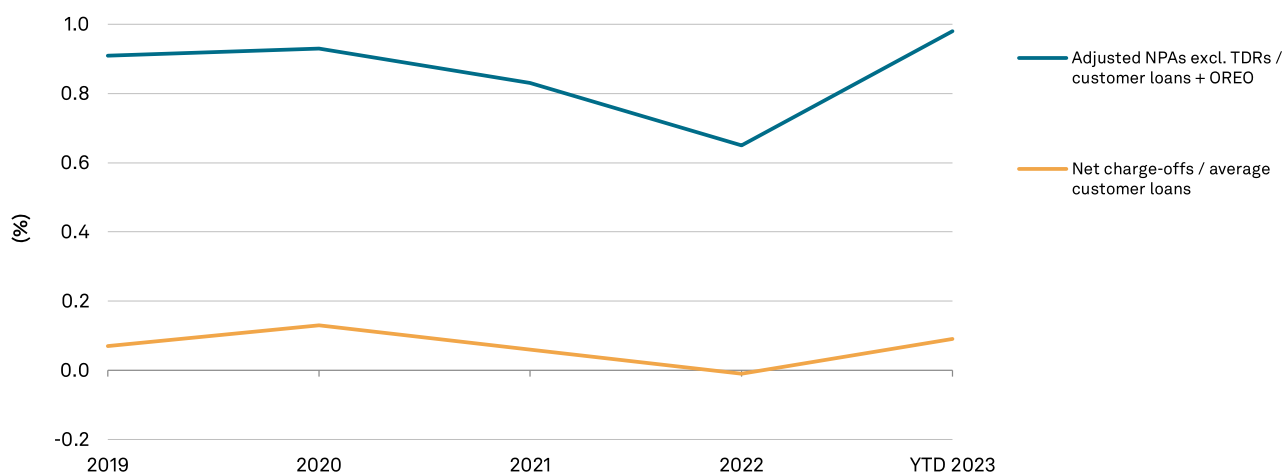
Agricultural loans represented 14% of total loans and residential real estate loans represented 6% as of June 30, 2023. The bank transitioned all of its residential originations to the state housing finance agency in August 2021, and transitioned nearly all its residential servicing and collections to the agency in October 2021. As a result, the residential loan portfolio has decreased by \$74 million since year-end 2021. The state's agricultural economy has been resilient after a drier summer and fall in 2022 followed by near-record snowfall. Despite these challenges, delinquencies in the farm loan portfolio have generally been consistent.

BND maintains robust hedging to manage its interest rate sensitivity. If interest rates fell by 100 bps, the market value of its equity would increase 10.26%, and if rates rose 100 bps, the market value of its equity would fall 9.51%. Off balance sheet, the bank uses pay-fixed/receive-floats swaps to keep a portion of its liabilities at a low fixed rate.

Chart 2

Uptick in Bank of North Dakota's nonperforming assets remains consistent with historical performance

As of June 30, 2023



NPAs--Nonperforming assets. TDR--Troubled debt restructurings. OREO--Other real estate owned. YTD--Year-to-date.

Source: S&P Global Ratings.

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Funding And Liquidity: Deposit Levels Continue To Bolster Funding And Liquidity

We consider the state-sourced captive deposits--mandated by legislation--as core to the bank. After substantial deposit growth in 2021 (mainly from federal assistance to the state of North Dakota through the CARES Act) and a slight drop

in 2022, BND's deposits jumped again in the first half of 2023 as oil prices recovered.

Meanwhile, funding metrics remained relatively strong compared with other U.S. regional banks. The loan-to-customer deposit ratio was 60% as of June 30, 2023. Furthermore, the stable funding ratio, calculated as available stable funding as a proportion of stable funding needs, improved to 161% as of June 30, 2023, from 153% at year-end 2022.

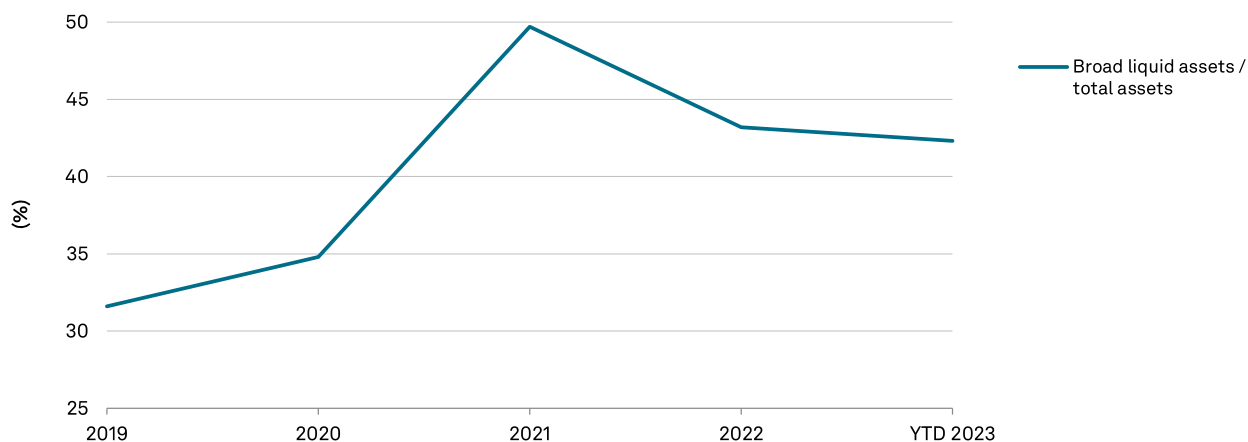
There is some concentration given captive certificates of deposit have generally accounted for a significant portion of the company's total balance sheet funding. Positively, the bank has no brokered deposits and short-term wholesale funding is manageable at only 5% of the funding base as of June 30, 2023.

We expect funding metrics could decline modestly over the next two years as government agencies continue to withdraw their stimulus-related deposits and spend their budgets, coupled with North Dakota's conservative forecast that oil and gas prices will decline to \$62 per barrel in fiscal year 2025 from around \$70 in 2023.

Chart 3

Bank of North Dakota's balance sheet remains liquid

As of June 30, 2023



YTD--Year-to-date. Source: S&P Global Ratings.

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BND's liquidity metrics have improved in the first half of 2023. The ratio of broad liquid assets to short-term wholesale funding improved substantially to 9.3x, from 3.8x at year-end 2022. The company had roughly \$4.4 billion of broad liquid assets, or 42% of total assets as of June 30, 2023--among the highest for regional U.S. bank peers. Liquid assets include cash due from banks, federal funds sold, and unpledged securities.

We believe BND has an adequate liquidity contingency plan, which includes Federal Home Loan Bank availability of \$1.5 billion, Federal Reserve discount window availability of \$210 million, unused federal funds lines of \$180 million, and unused repurchase agreements of \$1.1 billion as of June 30, 2023.

Support: High Likelihood Of Government Support

We incorporate one notch of uplift to our issuer credit rating on BND because we think the state of North Dakota is highly likely to provide it with extraordinary support if necessary. We base this view on BND's important role in promoting the state's economic development and its very strong link to the state government.

The 'AA' rating on the bank's deposits includes three notches of uplift from the SACP and reflects our assessment that the likelihood of extraordinary support for the bank's deposits is extremely high. These deposits are explicitly backed by the state and play a critical role in its public finances.

State law requires all monies of the state and state institutions to be deposited with BND; any changes to this arrangement would necessitate a change in the state legislative code. These arrangements serve to maintain trust in and the financial stability of BND and state finances, in our view.

We believe defaulting on the deposits would have a critical impact on the government. The bank has never defaulted on these state-guaranteed deposits in its over 100 years of operation.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of BND. The bank has higher direct exposure to the oil and gas industry and much higher indirect exposure through North Dakota's greater economic dependence on this industry, offset by a history of very good credit performance. Social factors are a positive consideration in our rating analysis. We view BND's key role in funding North Dakota's policy initiatives--through specific lending programs or direct cash appropriations--as a credit strength.

Key Statistics

Table 1

Bank of North Dakota--Key figures					
--Year-ended Dec. 31--					
(Mil. \$)	2023*	2022	2021	2020	2019
Adjusted assets	10,350.6	10,195.8	10,028.1	7,744.3	7,058.4
Customer loans (gross)	5,459.9	5,314.6	4,638.8	4,756.5	4,537.9
Adjusted common equity	1,113.4	1,174.7	1,013.9	944.3	940.7
Operating revenues	117.3	222.7	180.8	188.0	211.0
Noninterest expenses	15.7	32.3	32.1	30.2	29.0
Core earnings	96.1	190.5	144.0	141.0	176.0

*Data as of June 30.

Table 2

Bank of North Dakota--Business position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	117.9	224.3	181.9	189.1	211.9
Commercial & retail banking/total revenues from business line	98.0	97.8	97.6	97.9	98.2
Trading and sales income/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Corporate finance/total revenues from business line	0.1	0.0	0.0	0.0	0.1
Brokerage/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Insurance activities/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Agency services/total revenues from business line	0.2	0.2	0.2	0.1	0.1
Payments and settlements/total revenues from business line	1.2	1.2	1.5	1.4	1.1
Other revenues/total revenues from business line	0.5	0.7	0.6	0.6	0.4
Investment banking/total revenues from business line	0.1	0.0	0.0	0.0	0.1
Return on average common equity	19.8	19.3	15.2	15.2	18.8

*Data as of June 30.

Table 3

Bank of North Dakota--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	16.8	18.4	19.8	19.2	20.9
S&P Global Ratings' RAC ratio before diversification	18.5	20.3	22.7	21.9	23.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	98.0	98.6	97.1	98.1	97.2
Fee income/operating revenues	1.9	2.1	2.6	2.1	1.6
Market-sensitive income/operating revenues	0.0	-0.8	0.3	-0.4	1.2
Cost to income ratio	13.4	14.5	17.7	16.1	13.8
Preprovision operating income/average assets	2.0	1.9	1.7	2.1	2.6
Core earnings/average managed assets	1.9	1.9	1.6	1.9	2.5

*Data as of June 30.

Table 4

Bank of North Dakota--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	5.5	14.6	-2.5	4.8	-1.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	35.4	35.6	36.1	36.7	37.3
Total managed assets/adjusted common equity (x)	9.3	8.7	9.9	8.2	7.5
New loan loss provisions/average customer loans	0.2	N.M.	0.1	0.4	0.1
Net charge-offs/average customer loans	0.1	0.0	0.1	0.1	0.1
Adjusted nonperforming assets excl. troubled debt restructurings/customer loans + other real estate owned	0.98	0.65	0.83	0.93	0.91

Table 4

Bank of North Dakota--Risk position (cont.)					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Loan loss reserves/gross nonperforming assets	72.4	95.6	77.6	59.9	64.6

*Data as of June 30. N.M.--Not meaningful.

Table 5

Bank of North Dakota--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	95.0	87.4	92.9	87.7	82.7
Customer loans (net)/customer deposits	60.2	64.8	54.2	78.4	88.3
Long-term funding ratio	95.5	88.7	94.1	90.6	87.6
Stable funding ratio	161.5	152.6	182.8	135.4	125.7
Short-term wholesale funding/funding base	5.0	12.6	6.5	10.7	14.3
Broad liquid assets/short-term wholesale funding (x)	9.3	3.8	8.5	3.7	2.6
Broad liquid assets/total assets	42.3	43.2	49.7	34.8	31.6
Broad liquid assets/customer deposits	49.1	54.7	59.6	45.5	44.3
Net broad liquid assets/short-term customer deposits	54.8	50.5	65.8	41.7	33.8
Short-term wholesale funding/total wholesale funding	100.0	100.0	91.4	87.0	82.3

*Data as of June 30.

Bank of North Dakota--Rating component scores

Issuer Credit Rating	A+ / Stable / --
SACP	a
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Adequate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	1
ALAC support	0
GRE support	1
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: U.S., Oct. 12, 2023
- Comparative Statistics: U.S. Banks (October 2023), Oct. 11, 2023
- Rating Component Scores For U.S., Canadian, And Bermudian Banks (September 2023), Sept. 29, 2023
- Tough Operating Conditions Strain Certain U.S. Regional Banks While Most Rating Outlooks Remain Stable, Aug. 21, 2023
- State Brief: North Dakota, Aug. 1, 2023
- Banks Held Up Well In The Fed's Stress Test, But They Likely Won't Ramp Up Share Buybacks, July 7, 2023
- How U.S. Bank Regulation Could Evolve After Recent Industry Turmoil, June 16, 2023
- Stressful Conditions For U.S. Commercial Real Estate Are Raising Refinancing Risks, June 5, 2023
- U.S. Banking Sector Risk Should Remain Manageable While Headwinds Persist For Certain Banks, May 15, 2023
- Outlooks On Four Large U.S. Banks Revised To Stable From Positive On Uncertain Operating Conditions; Ratings Affirmed, March 31, 2023

Ratings Detail (As Of November 6, 2023)*

Bank of North Dakota

Issuer Credit Rating A+/Stable/--

Issuer Credit Ratings History

19-Feb-2016	A+/Stable/--
06-Dec-2011	AA-/Stable/--
30-Jul-2009	A+/Stable/--

Ratings Detail (As Of November 6, 2023)*(cont.)

Sovereign Rating

United States

AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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OVERVIEW OF NDHFA **BOND TRUST FUND PERFORMANCE & BONDS 101**

28 November 2023



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CAINE MITTER MUNICIPAL ADVISORS



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- 55 years public finance experience
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- Duke: Economics B.A.; UPenn Wharton: attendee
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- 19 years housing finance experience
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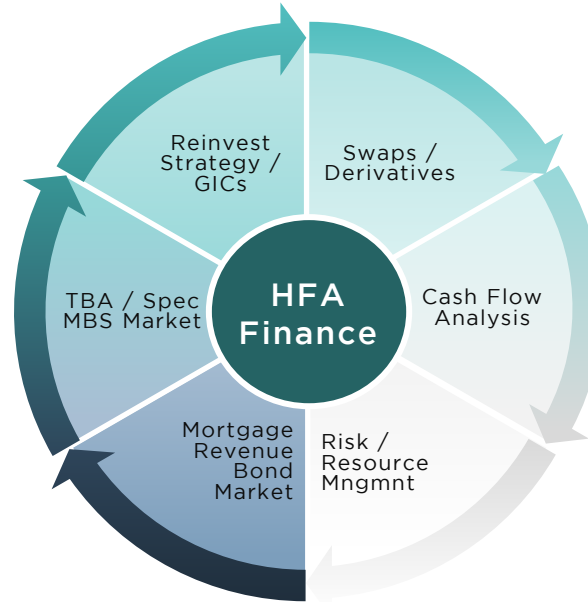
DYLAN GUNAWARDENE

- Joined Caine Mitter in July 2023
- Emory: Economics B.A.
- New York City

NDHFA'S FINANCIAL ADVISOR **CAINE MITTER**

Housing Finance Agencies (“HFAs”) operate complex programs

Affordable housing finance is a form of structured finance relying on multiple capital markets sectors and is widely considered the most complicated sector of municipal and general fixed income finance.



Caine Mitter is a leader in advising HFAs as they navigate this complexity

1978

Continuous financial advisory service to HFAs for 45 years

99%

Over 99% of the firm's activities relate to affordable housing finance

#1

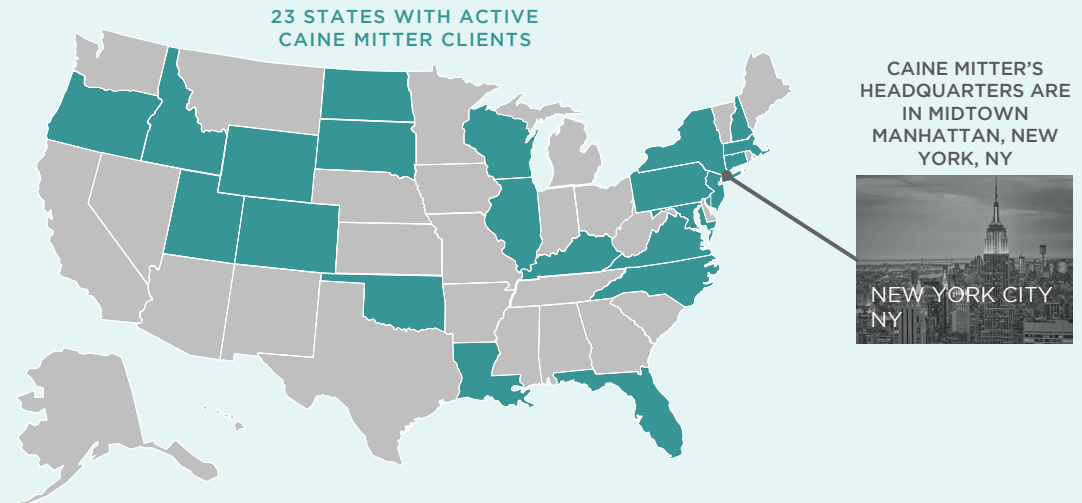
Ranked #1 housing financial advisor in 2021 and 2022 by deal number, dollar volume, or both

\$100_{bn}

Advised on over \$100 billion in HFA bond issues, \$27 billion MBS/TBA trades, and \$5 billion swap transactions

Nationwide presence

Caine Mitter has 29 active housing clients, including 23 state-level agencies and 6 locals. Our clients operate a broad range of sophisticated housing programs to meet the specific challenges of the people they serve.



ADVISORY SERVICES BY HFA CLIENT

		FINANCIAL ADVISOR				QUANTITATIVE				TBA	INVEST	SWAP			
		Pricing													
		Years of Service	SF/MF Public	MF Private Placemt	TEMS Cert	Docs/ Fees/ Other Services	Cash Flow/ Struct.	Strat. Plans/ Capital Adeq.	Rebate/ Tax Law Yield	Cross Call/ Univers Cap	Pipeline Mngr/ Bidding Agent	Program Advisor	Bidding Agent	GASB/ Vals	Pricing/ Docs/ QIR
State-Level HFA or Equivalent Financial Advisory Clients (23)	Connecticut HFA	<1	•			•	•		•						
	District of Columbia HFA	23	•			•	•		•		•		•		
	Florida HFC	8	•			•			•			•			
	Idaho HFA	4			•				•						
	Illinois HDA	8	•	•		•	•	•	•	•				•	•
	Kentucky HC	14				•	•	•	•	•					
	Maryland DHCD	36	•	•		•	•	•	•	•	•	•	•		•
	MassHousing	3	•	•		•									
	New Hampshire HFA	23	•	•		•	•		•		•	•	•		
	New Jersey HMFA	11	•			•	•		•				•	•	•
	New York City HDC	11		•											
	New York State HFA	10	•	•		•	•		•						
	North Carolina HFA	3	•			•	•		•	•		•	•	•	•
	North Dakota HFA	20	•			•					•		•		•
	Oklahoma HFA	11	•	•		•	•		•		•	•	•		
	Oregon DVA	13	•			•	•	•	•					•	•
	Oregon HCS	44	•	•		•	•	•	•			•		•	•
	South Dakota HDA	45	•			•	•	•	•	•	•	•	•	•	•
	State of New York MA	2	•			•		•							
	Utah HC	4			•										
	Virginia Housing	1				•		•				•			
	Wisconsin HEDA	4											•		
	Wyoming CDA	10				•					•	•			
Local HFA Financial Advisory Clients (6)	Allegheny County RFA, PA	18	•			•	•		•	•	•	•	•		•
	City and County of Denver, CO	3		•							•				
	FA of New Orleans, LA	5	•			•	•		•		•		•		
	HOC of Montgomery County, MD	43	•	•		•	•	•	•	•	•	•	•	•	•
	Howard County, MD HC	5	•	•		•	•						•	•	•
	URA of Pittsburgh, PA	25	•			•	•		•	•		•	•		
# HFAS SERVED			21	11	2	24	18	9	19	8	7	15	14	8	11

HFA SINGLE FAMILY CAPITAL MARKETS OVERVIEW

HFAs use two sectors of the capital markets to finance single family programs:

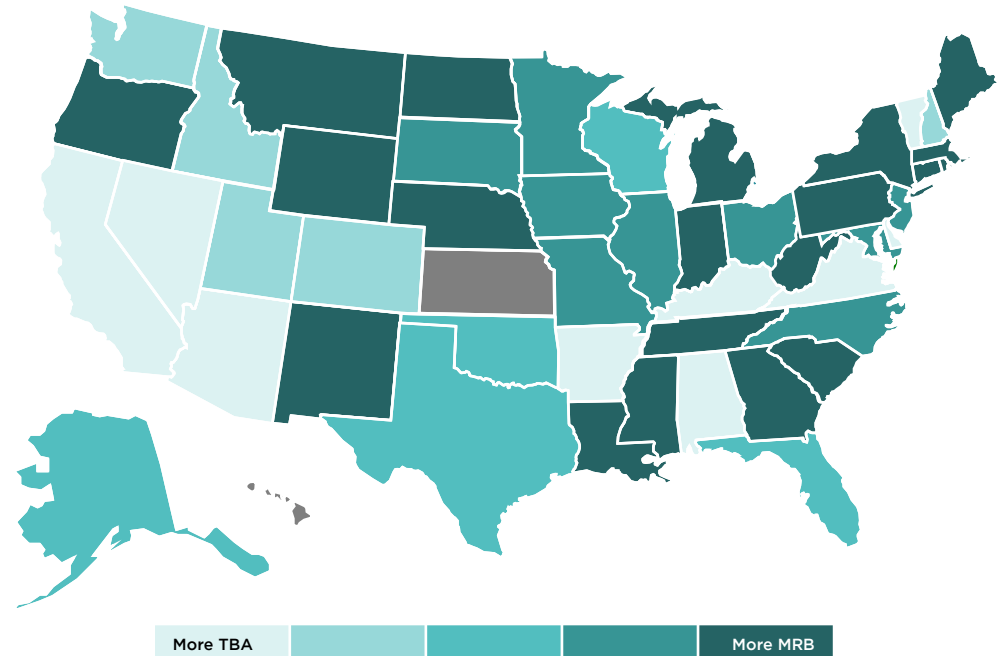
MRB PRIMARY MARKET

- Widely adopted by HFAs in 1980s
- Mortgage assets are financed with debt through the sale tax-exempt mortgage revenue bonds (“MRBs”) in the primary municipal bond market
- Tax-exemption creates subsidy that can be passed onto borrowers
- MRBs finance whole loans and mortgage-backed securities “MBSs” on balance sheet under a trust indenture
- Driven by rate benefit of tax-exempt financing and HFA financed downpayment assistance
- Limited to qualifying first-time homebuyers

MBS SECONDARY (TBA) MARKET

- Widely adopted by HFAs in early to mid 2010s in response to unfavorable market conditions in the wake of the financial crisis
- Mortgage assets are sold in the secondary market for agency “MBSs”, or one of its derivatives
- Includes to-be-announced (“TBA”), specified pool, and interest-only CMO markets, as well as the Fannie and Freddie cash windows, and is widely referred to in the industry as the “TBA market”
- Same market used by private sector lenders, so there is no inherent rate advantage
- Driven by HFA financed downpayment assistance
- Not limited to qualifying first-time homebuyers

2022 STATE HFA MRB vs TBA ACTIVITY



Sources: NCSHA's 2022 HFA Factbook supplemented with Caine Mitter data

STATE HOUSING FINANCE AGENCY **BENEFITS**

TRADITIONAL HFA BENEFITS

- Below market interest rates for in-state first time moderate income borrowers through the issuance of tax exempt revenue bonds
- Down payment and closing cost assistance for in-state first time moderate income borrowers
- Additional secondary market for in-state mortgage loans
- Opportunities for underserved population eligible for FHA, RD and VA loans

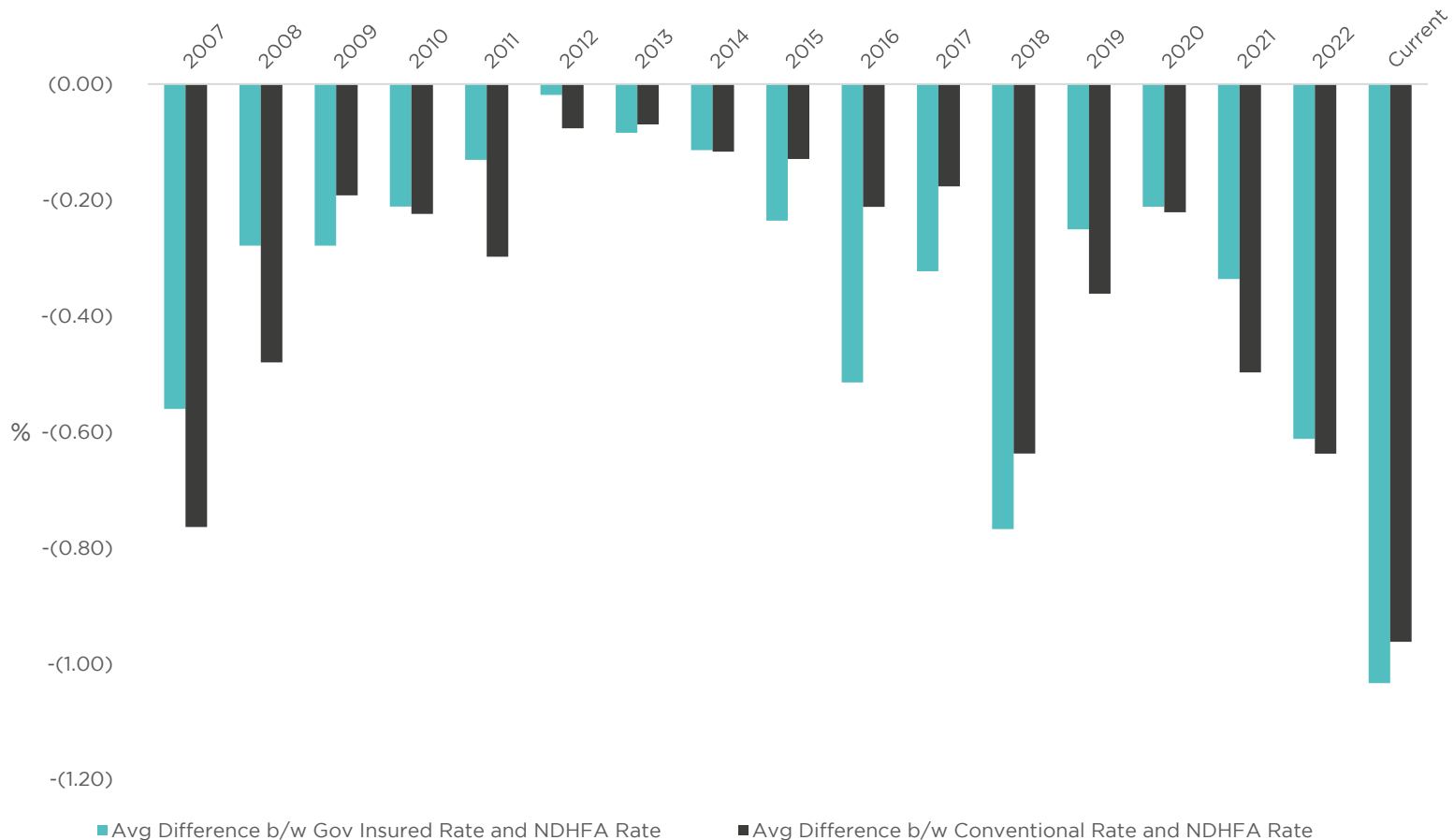
NDHFA BENEFITS

- Below market interest rates for in-state first time low to moderate income borrowers through issuance of tax exempt revenue bonds
- Down payment and closing cost assistance for in-state first time low to moderate income borrowers
- Additional secondary market for in-state mortgage loans
- Opportunities for underserved population eligible for FHA, RD and VA loans
- Funding of loans through both bond financing of whole loans and secondary market sale of GNMA MBSs
- Down payment and closing cost assistance for in-state non-first home eligible moderate income borrowers
- Loan servicing retained in North Dakota
- Complement lenders (no cross selling of banking services)
- No added overlays for loan programs other than what the loan insurer allows, making it easier for lenders
- Special program for single parents, veterans, 65 and older, and permanently disabled who are current homeowners, qualify as a first-time homebuyer with the benefit of lower rates

NDHFA RATE **BENEFIT TO BORROWER**

NDHFA RATE BENEFIT TO BORROWER

NDHFA is one of only a few state HFAs that has been able to consistently enable lenders to offer first time homebuyers lower mortgage rates. This has been achieved through the management of its existing mortgage portfolio and the use of bond financing techniques that minimize the cost of capital.

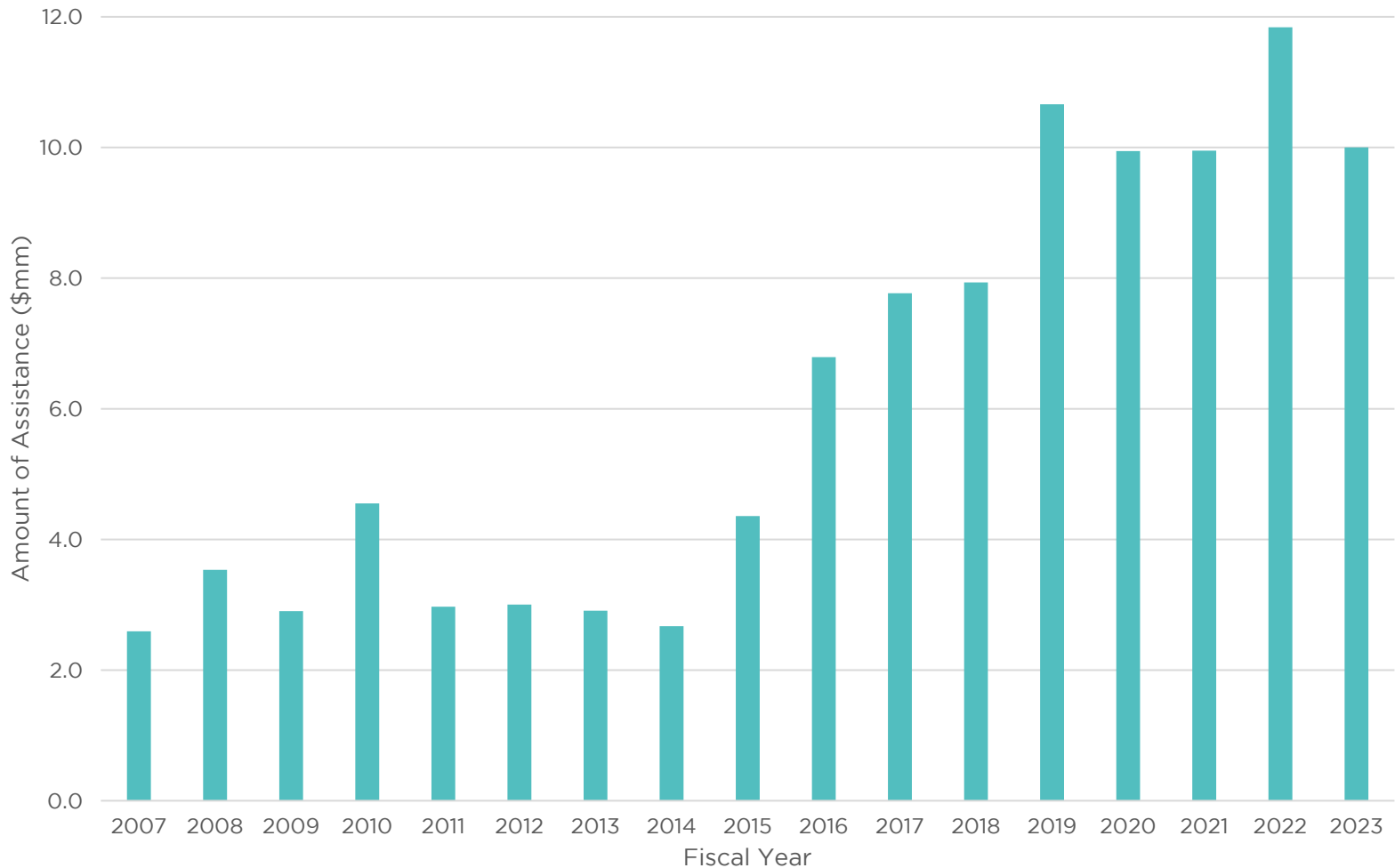


Source: Daily surveys from ND lenders provided to NDHFA

NDHFA ASSISTANCE **BENEFIT TO BORROWERS**

NDHFA DOWN PAYMENT AND CLOSING COST ASSISTANCE

NDHFA has provided more than \$110mm of down payment and closing cost assistance over 20 years, enabling borrowers to purchase their first home.

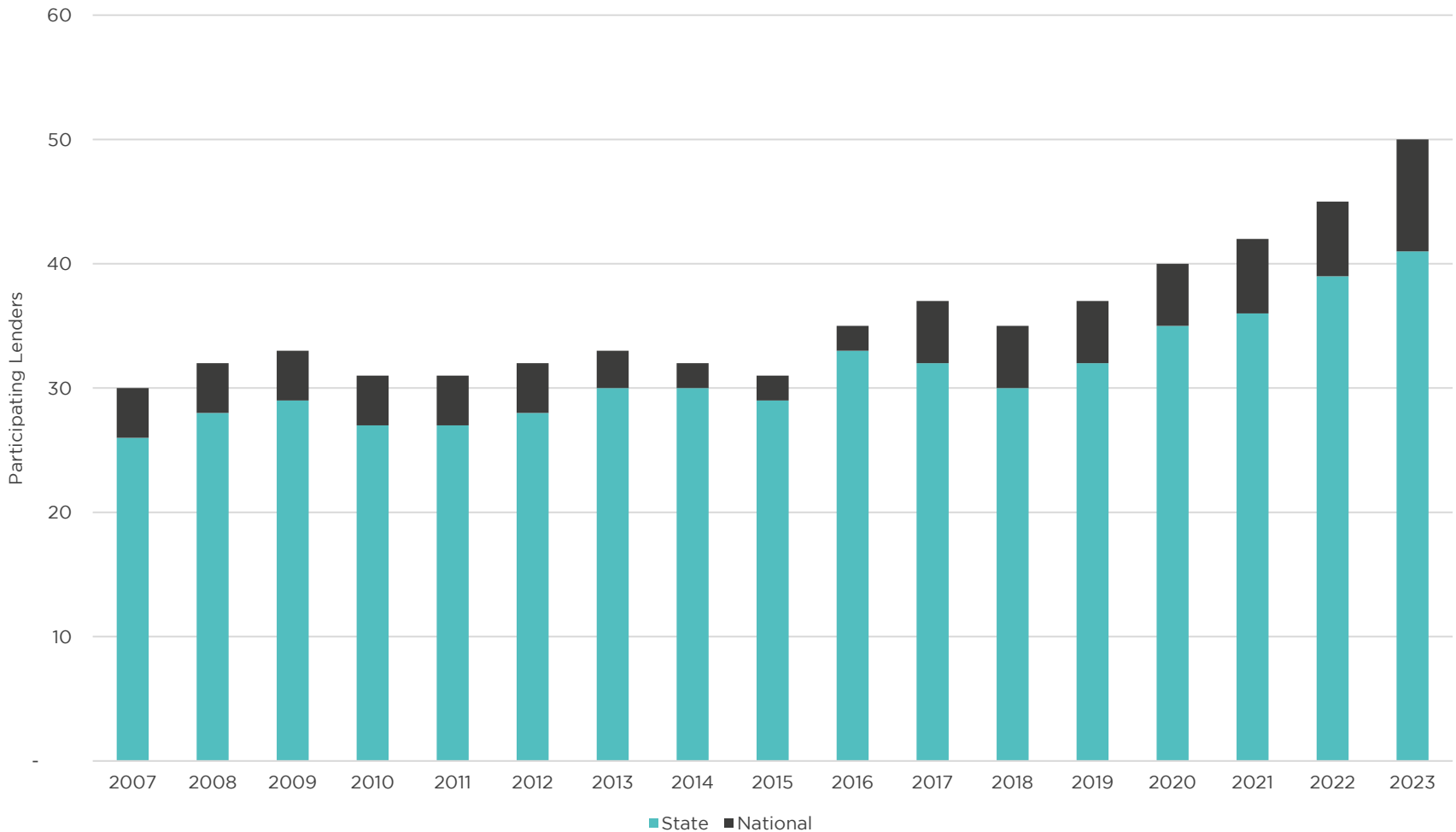


Source: NDHFA Originations Data

NDHFA **LENDERS**

STATE AND NATIONAL LENDERS

NDHFA's program currently has 41 State and 9 national participating lenders.

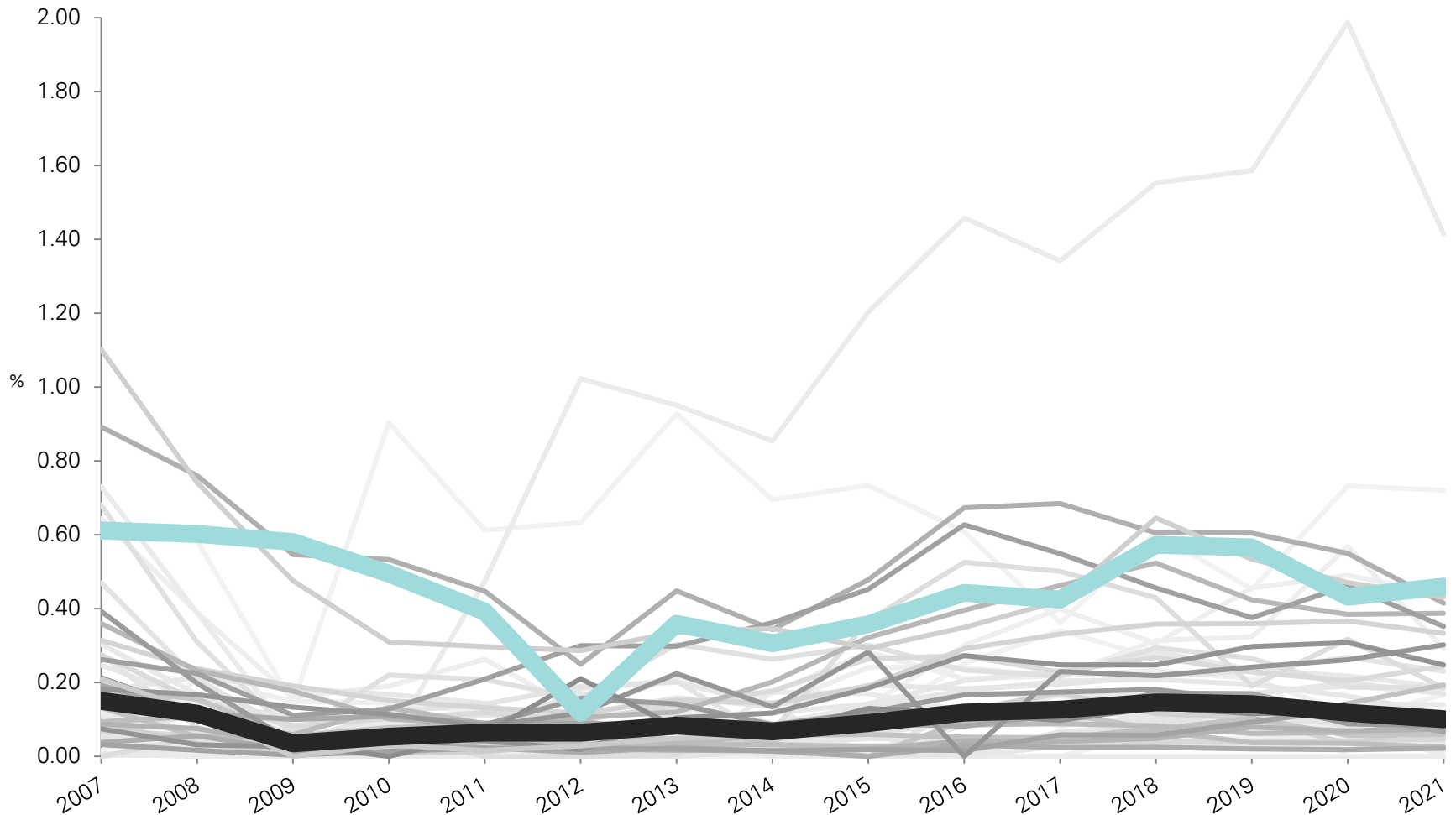


Source: NDHFA Originations Data

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

NEW LOAN ORIGINATION AS A PERCENT OF POPULATION

NDHFA's penetration of the market is consistently among the highest of State HFAs.



Sources: NCSHA State HFA Factbooks 2007 - 2021; US Census Bureau Projections 2007 - 2021

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

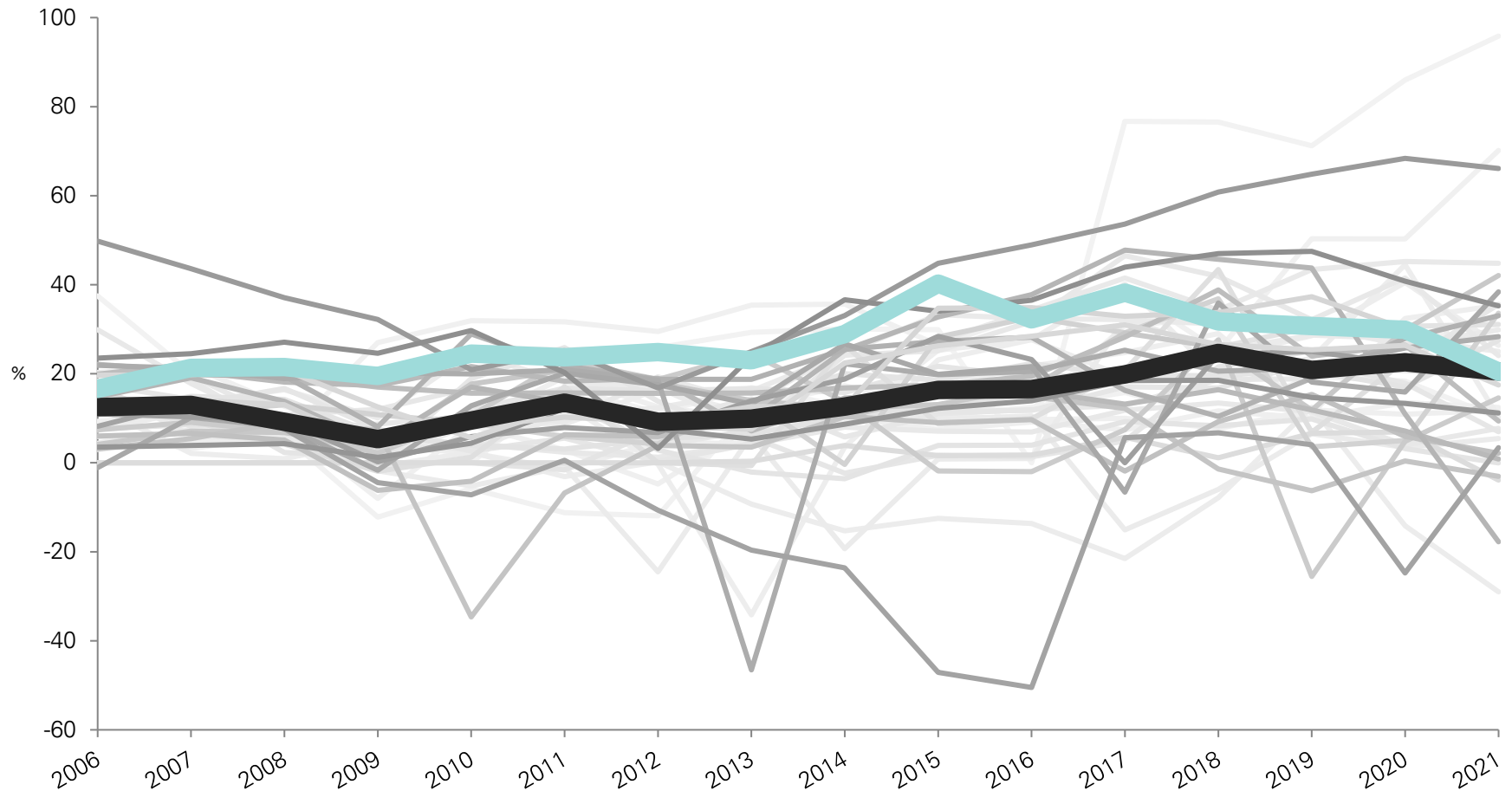
NEW LOAN ORIGINATION AS A PERCENT OF POPULATION

State	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average 2006 - 2021	Average 2015 - 2021	Rank 2006	Rank 2021
Idaho Housing and Finance Association	0.32	0.73	0.39	0.05	0.04	0.47	1.02	0.95	0.85	1.20	1.46	1.34	1.55	1.59	1.99	1.41	1.00	1.51	9	1
Alaska Housing Finance Corporation	0.58	0.59	0.58	0.14	0.90	0.61	0.63	0.93	0.70	0.73	0.61	0.36	0.60	0.45	0.73	0.72	0.62	0.60	3	2
North Dakota Housing Finance Agency	0.49	0.61	0.60	0.58	0.49	0.39	0.12	0.36	0.31	0.36	0.44	0.42	0.57	0.57	0.43	0.46	0.45	0.47	5	3
Colorado Housing and Finance Authority	0.13	0.16	0.15	0.01	0.00	0.12	0.11	0.13	0.08	0.14	0.30	0.40	0.31	0.46	0.49	0.44	0.22	0.36	28	4
Wyoming Community Development Authority	0.94	1.10	0.74	0.48	0.31	0.30	0.29	0.34	0.35	0.29	0.35	0.42	0.65	0.53	0.47	0.43	0.47	0.45	1	5
South Dakota Housing Development Authority	0.80	0.89	0.76	0.55	0.53	0.45	0.25	0.45	0.34	0.48	0.67	0.68	0.61	0.60	0.55	0.41	0.55	0.57	2	6
Rhode Island Housing and Mortgage Finance Corporation	0.27	0.36	0.23	0.18	0.10	0.09	0.11	0.12	0.20	0.32	0.40	0.46	0.52	0.42	0.38	0.39	0.29	0.41	12	7
Utah Housing Corporation	0.25	0.26	0.22	0.11	0.13	0.21	0.30	0.30	0.36	0.45	0.63	0.55	0.46	0.38	0.46	0.35	0.34	0.47	15	8
New Mexico Mortgage Finance Agency	0.26	0.31	0.24	0.19	0.15	0.13	0.12	0.15	0.14	0.19	0.29	0.33	0.36	0.36	0.37	0.33	0.24	0.32	13	9
Virginia Housing Development Authority	0.21	0.18	0.17	0.13	0.11	0.08	0.12	0.22	0.13	0.28	0.00	0.23	0.22	0.24	0.26	0.30	0.18	0.22	19	10
Delaware State Housing Authority	0.34	0.64	0.39	0.16	0.19	0.26	0.12	0.22	0.14	0.24	0.24	0.22	0.31	0.32	0.57	0.29	0.29	0.31	8	11
Washington State Housing Finance Commission	0.07	0.07	0.03	0.03	0.05	0.04	0.02	0.10	0.12	0.18	0.27	0.25	0.25	0.30	0.31	0.25	0.15	0.26	35	12
New Hampshire Housing Finance Agency	0.24	0.28	0.15	0.08	0.10	0.12	0.10	0.14	0.18	0.26	0.27	0.23	0.27	0.23	0.20	0.24	0.19	0.24	17	13
Minnesota Housing Finance Agency	0.14	0.18	0.12	0.04	0.11	0.11	0.11	0.16	0.14	0.19	0.18	0.19	0.22	0.23	0.27	0.23	0.17	0.22	27	14
Oklahoma Housing Finance Agency	0.16	0.13	0.05	0.06	0.08	0.08	0.10	0.04	0.06	0.05	0.05	0.08	0.09	0.14	0.19	0.08	0.08	0.10	23	15
Kentucky Housing Corporation	0.32	0.25	0.15	0.10	0.12	0.06	0.03	0.11	0.12	0.14	0.20	0.23	0.28	0.23	0.22	0.19	0.16	0.21	10	16
Nebraska Investment Finance Authority	0.53	0.68	0.31	0.06	0.22	0.21	0.16	0.30	0.26	0.30	0.23	0.22	0.29	0.27	0.19	0.19	0.26	0.24	4	17
Nevada Housing Division	0.02	0.00	0.05	0.02	0.06	0.00	0.00	0.01	0.07	0.37	0.53	0.50	0.43	0.19	0.32	0.19	0.18	0.36	48	18
Iowa Finance Authority	0.25	0.30	0.17	0.05	0.09	0.08	0.17	0.11	0.00	0.14	0.17	0.16	0.17	0.17	0.19	0.17	0.14	0.17	16	19
Maryland Community Development Administration	0.12	0.20	0.11	0.03	0.03	0.07	0.08	0.08	0.06	0.14	0.12	0.09	0.09	0.17	0.20	0.17	0.11	0.14	29	20
Arkansas Development Finance Authority	0.10	0.12	0.11	0.02	0.05	0.05	0.05	0.05	0.03	0.00	0.00	0.00	0.07	0.08	0.10	0.17	0.06	0.06	33	21
Illinois Housing Development Authority	0.03	0.00	0.02	0.00	0.01	0.02	0.04	0.00	0.17	0.17	0.12	0.12	0.11	0.10	0.14	0.14	0.08	0.13	45	22
Maine State Housing Authority	0.20	0.18	0.21	0.18	0.17	0.14	0.06	0.11	0.09	0.14	0.18	0.20	0.21	0.20	0.16	0.12	0.16	0.17	22	23
Missouri Housing Development Commission	0.15	0.13	0.06	0.07	0.12	0.14	0.19	0.20	0.05	0.07	0.09	0.10	0.08	0.15	0.08	0.11	0.11	0.10	24	24
West Virginia Housing Development Fund	0.20	0.21	0.12	0.03	0.00	0.06	0.21	0.08	0.06	0.13	0.11	0.10	0.13	0.12	0.12	0.11	0.11	0.12	21	25
Indiana Housing Finance Authority	0.10	0.11	0.12	0.02	0.04	0.05	0.06	0.05	0.07	0.00	0.09	0.09	0.10	0.07	0.08	0.09	0.07	0.07	31	26
Pennsylvania Housing Finance Agency	0.14	0.14	0.10	0.06	0.13	0.09	0.07	0.03	0.06	0.08	0.09	0.09	0.08	0.06	0.07	0.09	0.08	0.08	26	27
Wisconsin Housing and Economic Development Authority	0.20	0.21	0.12	0.00	0.03	0.02	0.03	0.05	0.05	0.07	0.12	0.13	0.17	0.13	0.10	0.09	0.09	0.12	20	28
Vermont Housing Finance Agency	0.37	0.39	0.20	0.04	0.05	0.09	0.16	0.14	0.09	0.12	0.17	0.17	0.18	0.15	0.09	0.08	0.14	0.14	7	29
North Carolina Housing Finance Agency	0.06	0.09	0.04	0.01	0.01	0.01	0.03	0.03	0.04	0.09	0.13	0.17	0.12	0.10	0.03	0.08	0.07	0.10	36	30
Massachusetts Housing Finance Agency	0.05	0.05	0.05	0.03	0.03	0.05	0.18	0.20	0.14	0.00	0.13	0.08	0.11	0.08	0.12	0.08	0.09	0.09	39	31
Montana Board of Housing	0.47	0.47	0.21	0.07	0.00	0.07	0.00	0.14	0.09	0.08	0.08	0.09	0.16	0.10	0.09	0.08	0.12	0.10	6	32
Connecticut Housing and Finance Authority	0.30	0.00	0.21	0.15	0.14	0.12	0.11	0.13	0.17	0.28	0.21	0.22	0.23	0.21	0.12	0.08	0.16	0.19	11	33
Mississippi Home Corporation	0.25	0.28	0.08	0.02	0.05	0.06	0.05	0.00	0.01	0.00	0.01	0.07	0.09	0.13	0.10	0.08	0.07	0.07	14	34
Texas Department of Housing and Community Affairs	0.03	0.03	0.02	0.00	0.01	0.02	0.02	0.02	0.02	0.02	0.06	0.06	0.09	0.13	0.08	0.08	0.04	0.06	47	35
Michigan State Housing Development Authority	0.06	0.05	0.12	0.02	0.02	0.03	0.00	0.00	0.04	0.05	0.04	0.06	0.10	0.13	0.09	0.07	0.05	0.08	37	36
South Carolina State Housing & Finance Development Authority	0.11	0.09	0.08	0.03	0.06	0.04	0.02	0.02	0.02	0.04	0.04	0.04	0.05	0.08	0.07	0.07	0.05	0.05	30	37
Tennessee Housing Development Agency	0.14	0.19	0.12	0.10	0.11	0.09	0.09	0.08	0.07	0.09	0.08	0.11	0.17	0.17	0.11	0.07	0.11	0.12	25	38
Ohio Housing Finance Agency	0.22	0.18	0.16	0.05	0.07	0.08	0.07	0.08	0.04	0.00	0.10	0.12	0.07	0.10	0.06	0.06	0.08	0.07	18	39
Florida Housing Finance Corporation	0.04	0.07	0.05	0.04	0.06	0.05	0.04	0.03	0.04	0.06	0.10	0.17	0.08	0.06	0.04	0.05	0.06	0.08	43	40
California Housing Finance Agency	0.05	0.04	0.03	0.00	0.00	0.01	0.00	0.00	0.00	0.02	0.05	0.05	0.08	0.11	0.07	0.05	0.03	0.06	40	41
New Jersey Housing and Mortgage Finance Agency	0.04	0.07	0.06	0.02	0.02	0.02	0.02	0.04	0.02	0.03	0.04	0.04	0.04	0.04	0.04	0.05	0.04	0.04	44	42
Alabama Housing Finance Authority	0.04	0.12	0.04	0.00	0.00	0.05	0.05	0.04	0.00	0.07	0.00	0.05	0.05	0.05	0.04	0.04	0.04	0.04	42	43
Louisiana Housing Finance Agency	0.10	0.13	0.10	0.03	0.03	0.03	0.01	0.01	0.02	0.02	0.00	0.03	0.03	0.03	0.02	0.04	0.03	0.02	32	44
Oregon Housing and Community Services Department	0.08	0.09	0.11	0.03	0.00	0.04	0.03	0.03	0.03	0.03	0.02	0.04	0.07	0.04	0.04	0.03	0.04	0.04	34	45
State of New York Mortgage Agency	0.05	0.04	0.06	0.02	0.03	0.02	0.01	0.02	0.01	0.00	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	41	46
Georgia Department of Community Affairs	0.03	0.04	0.03	0.01	0.03	0.04	0.03	0.04	0.03	0.03	0.03	0.03	0.05	0.04	0.04	0.01	0.03	0.04	46	47
Arizona Housing Finance Authority	0.01	0.02	0.01	0.00	0.00	0.01	0.01	0.01	0.02	0.09	0.25	0.34	0.27	0.24	0.00	0.00	0.08	0.17	50	48
District of Columbia	0.06	0.11	0.01	0.00	0.01	0.02	0.00	0.02	0.08	0.08	0.00	0.06	0.03	0.03	0.10	0.00	0.04	0.04	38	48
Hawaii Housing Finance & Development Corporation	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	49	48
Average	0.20	0.23	0.16	0.08	0.10	0.11	0.11	0.14	0.12	0.17	0.20	0.20	0.22	0.21	0.22	0.19	0.17	0.20		
% Change	-	0.14	(0.29)	(0.50)	0.25	0.06	0.03	0.24	(0.11)	0.35	0.17	0.05	0.10	(0.05)	0.03	(0.15)				
Median	0.14	0.15	0.12	0.04	0.05	0.06	0.06	0.08	0.07	0.09	0.12	0.13	0.15	0.14	0.12	0.10	0.11	0.12		
% Change	-	0.09	(0.23)	(0.70)	0.52	0.21	(0.00)	0.30	(0.19)	0.34	0.32	0.07	0.15	(0.03)	(0.16)	(0.15)				

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

NET REVENUES / TOTAL REVENUES (MARGINS)

NDHFA operates one of the most efficient single family programs among all state HFAs with net revenues consistently a high percent of total program revenues.



Source: Moody's US Housing Finance Agency Medians 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

STATE HOUSING FINANCE AGENCY

SINGLE FAMILY PROGRAMS

NET REVENUES / TOTAL REVENUES (MARGINS)

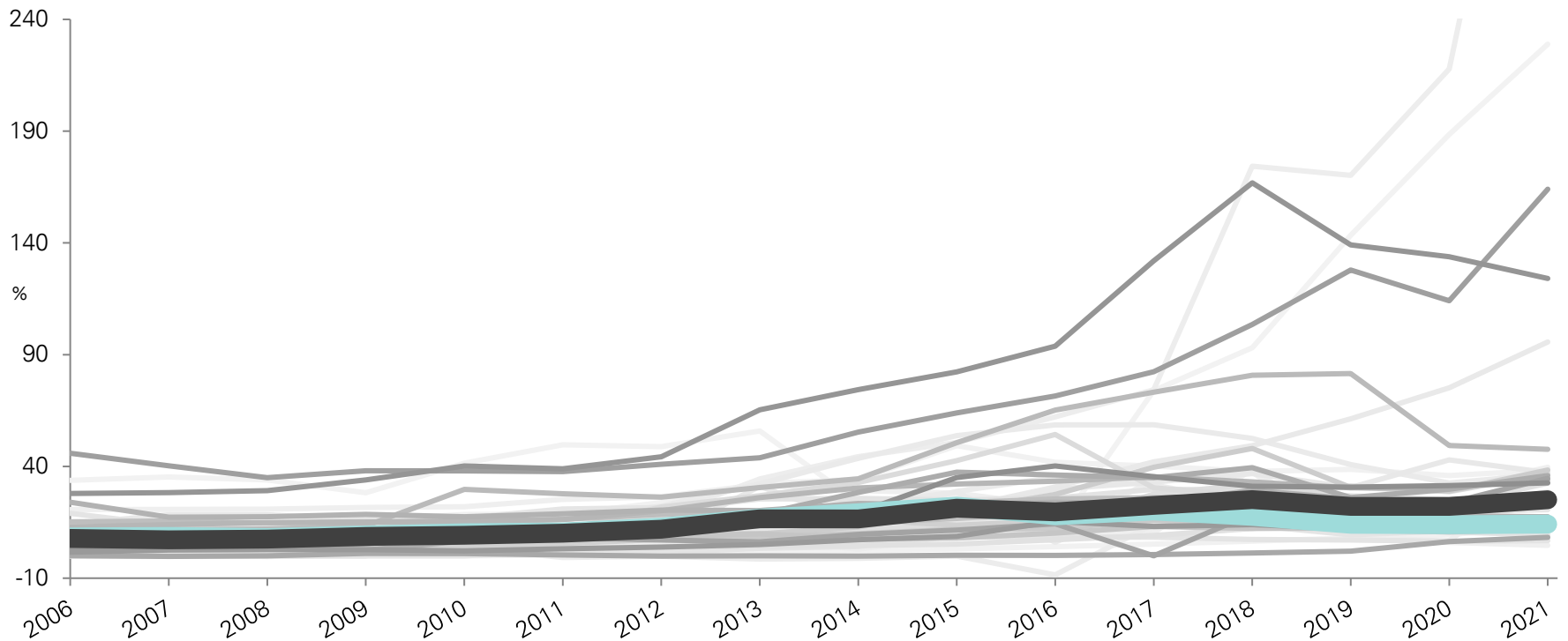
State	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average 2006 - 2021	Average 2016 - 2021	Rank 2006	Rank 2021
Alabama Housing Finance Authority	37.50	20.15	18.72	20.96	25.90	25.39	25.84	29.30	30.08	29.89	n.a	76.71	76.56	71.22	85.99	95.84	41.88	67.72	2	1
California Housing Finance Agency	9.30	10.80	5.80	27.00	31.93	31.67	29.49	35.42	35.65	26.45	33.55	39.10	25.18	50.33	50.29	70.17	32.01	44.77	27	2
Virginia Housing Development Authority	49.80	43.60	37.10	32.20	20.88	25.20	16.80	24.97	33.06	44.80	48.95	53.62	60.81	64.84	68.39	66.12	43.20	60.46	1	3
Kentucky Housing Corporation	20.20	18.60	6.30	4.30	11.47	9.18	19.32	13.36	25.53	27.21	34.29	41.52	34.29	43.40	45.21	44.80	24.94	40.59	8	4
Oklahoma Housing Finance Agency	4.10	7.10	6.80	3.60	17.68	20.81	17.90	13.95	12.24	13.08	16.98	29.14	25.94	11.85	29.89	42.06	17.07	25.98	35	5
Texas Department of Housing and Community Affairs	(1.10)	10.18	8.08	(1.68)	12.78	20.12	17.49	13.19	26.73	19.87	21.60	(6.62)	35.91	18.12	15.89	38.40	15.56	20.55	39	6
Maryland Community Development Administration	16.10	8.20	10.80	12.00	16.89	13.88	9.37	14.35	5.79	10.98	11.97	12.93	18.67	18.87	22.31	35.60	14.92	20.06	17	7
Delaware State Housing Authority	3.00	5.00	5.70	3.80	2.20	(1.48)	4.60	4.28	8.43	17.16	21.74	24.76	29.01	11.01	32.42	35.37	12.94	25.72	38	8
West Virginia Housing Development Fund	23.50	24.50	27.10	24.60	29.71	20.27	3.21	23.94	36.62	34.05	36.54	43.93	46.99	47.49	40.80	35.24	31.16	41.83	4	9
North Carolina Housing Finance Agency	12.50	11.40	13.00	10.80	8.89	5.91	4.24	14.07	(0.39)	28.23	32.69	29.21	36.84	3.59	5.01	33.61	15.60	23.49	20	10
South Dakota Housing Development Authority	16.80	19.80	19.50	8.10	28.94	21.81	18.74	18.74	25.46	27.26	28.22	16.24	10.38	18.99	27.93	33.04	21.25	22.47	14	11
New Hampshire Housing Finance Agency	7.60	8.60	8.30	6.50	3.90	3.08	5.42	6.50	10.27	12.50	15.53	21.43	25.91	30.48	30.64	31.08	14.23	25.85	29	12
Iowa Finance Authority	17.00	6.20	5.00	4.00	3.01	10.78	12.33	16.14	24.60	33.30	32.38	32.18	31.16	30.71	26.38	29.87	19.69	30.45	n.a.	13
Tennessee Housing Development Agency	21.90	21.20	18.90	20.20	19.96	20.89	18.52	(46.54)	22.22	19.78	20.51	25.28	20.57	21.26	25.78	28.33	17.42	23.62	6	14
Michigan State Housing Development Authority	n.a	n.a	n.a	n.a	18.90	25.87	13.83	5.76	(2.35)	1.68	1.34	4.87	21.55	25.14	26.57	28.19	14.28	17.94	n.a.	15
Alaska Housing Finance Corporation	5.90	3.20	6.10	(12.20)	(5.82)	(11.23)	(11.92)	12.55	17.31	12.01	11.83	30.84	32.48	31.93	29.16	28.08	11.26	27.39	33	16
Mississippi Home Corporation	n.a	n.a	n.a	n.a	n.a	(1.60)	7.26	13.21	20.02	18.56	22.27	19.76	26.48	20.60	17.01	27.49	17.37	22.27	n.a.	17
Hawaii Housing Finance & Development Corporation	n.a	n.a	n.a	n.a	8.78	13.31	(0.32)	(34.16)	3.54	23.12	27.65	19.29	23.68	28.55	40.52	26.38	15.03	27.68	n.a.	18
Illinois Housing Development Authority	4.40	7.40	9.20	(1.80)	(5.19)	(0.90)	(24.51)	6.19	(19.30)	0.85	0.95	32.32	25.03	28.67	27.86	24.99	7.26	23.30	34	19
Louisiana Housing Finance Agency	29.90	17.80	7.70	8.70	10.55	13.57	3.73	7.39	24.17	25.17	31.73	46.52	41.89	32.15	41.51	24.07	22.91	36.31	3	20
Wisconsin Housing and Economic Development Authority	12.49	14.06	13.04	3.40	8.12	10.23	9.21	12.61	12.61	34.73	34.83	32.92	33.74	37.31	30.11	21.27	20.04	31.70	22	21
Vermont Housing Finance Agency	11.00	10.30	9.60	0.20	5.87	7.91	6.78	13.91	18.82	28.40	23.20	n.a	24.32	25.01	22.17	20.55	15.20	23.05	25	22
North Dakota Housing Finance Agency	16.60	21.30	21.50	19.50	24.53	23.70	24.87	23.03	28.92	40.24	32.23	38.22	31.74	30.72	29.89	20.47	26.72	30.54	15	23
Minnesota Housing Finance Agency	17.60	14.20	2.30	1.50	11.79	16.77	16.11	16.69	15.77	21.66	19.37	19.84	19.50	21.09	20.73	19.31	15.89	19.98	12	24
New Jersey Housing and Mortgage Finance Agency	16.40	9.40	4.20	(1.90)	1.25	17.07	(0.01)	(0.62)	26.41	8.75	9.91	20.78	43.40	6.85	22.90	19.15	12.75	20.50	16	25
Wyoming Community Development Authority	19.69	19.76	20.84	12.55	5.62	12.36	8.22	7.54	22.41	26.29	28.44	30.97	26.55	25.38	26.37	17.46	19.40	25.86	10	26
Ohio Housing Finance Agency	7.40	9.10	7.00	2.20	10.58	22.98	18.70	24.56	13.65	(1.85)	(2.01)	7.44	27.63	(26.53)	4.81	14.56	8.83	4.48	30	27
Colorado Housing and Finance Authority	11.70	10.80	8.40	(8.00)	8.41	2.90	(4.77)	8.18	10.31	7.47	9.17	7.40	11.63	10.02	13.50	12.41	7.47	10.69	24	28
Connecticut Housing and Finance Authority	20.30	21.70	12.70	6.20	8.88	19.24	12.54	9.89	11.55	10.52	9.69	9.98	7.73	11.86	10.89	11.80	12.22	10.33	7	29
Washington State Housing Finance Commission	3.50	3.90	4.30	1.20	4.38	12.17	7.60	5.31	8.64	12.23	13.92	18.47	18.52	14.66	13.34	11.18	9.58	15.02	36	30
Florida Housing Finance Corporation	12.50	2.10	0.90	5.30	9.47	8.64	16.53	10.78	8.81	25.28	27.67	40.13	19.23	23.49	44.51	10.25	16.60	27.55	20	31
Arkansas Development Finance Authority	n.a	n.a	n.a	n.a	n.a	16.85	11.22	16.87	12.61	10.64	12.45	15.78	10.54	19.43	18.34	10.13	14.08	14.45	n.a.	32
Rhode Island Housing and Mortgage Finance Corporation	19.90	22.20	19.50	17.00	15.64	15.69	15.59	15.66	16.81	17.48	19.45	28.25	38.84	23.97	26.45	9.38	20.11	24.39	9	33
Maine State Housing Authority	18.40	19.60	9.50	2.20	4.31	2.37	1.25	4.15	7.99	7.09	6.91	11.81	13.41	11.47	4.03	7.71	8.26	9.22	n.a.	34
Massachusetts Housing Finance Agency	14.80	13.00	16.70	7.60	2.60	5.54	0.32	4.24	12.36	11.53	11.76	17.08	16.79	22.61	17.87	6.98	11.36	15.51	18	35
Indiana Housing Finance Authority	12.30	13.50	16.40	10.10	24.68	18.10	16.97	7.46	12.66	9.74	10.51	(15.07)	(5.99)	6.54	3.43	5.43	9.17	0.81	23	36
Utah Housing Corporation	8.20	13.52	7.61	(4.44)	(7.19)	0.55	(10.66)	(19.63)	(23.62)	(47.10)	(60.47)	5.63	6.73	4.04	(24.77)	3.40	(8.64)	(9.24)	28	37
Pennsylvania Housing Finance Agency	6.00	6.60	5.10	(6.20)	(4.15)	6.33	5.89	9.69	10.43	9.00	9.69	(1.88)	9.23	15.35	5.92	2.13	5.57	6.74	32	38
State of New York Mortgage Agency	22.11	20.57	18.12	17.35	21.60	18.35	18.95	7.17	14.53	15.55	16.12	13.18	16.39	11.85	7.14	0.82	14.99	10.92	5	39
Montana Board of Housing	10.92	14.93	14.22	6.34	10.42	15.35	2.88	(2.08)	(3.58)	3.89	3.94	9.23	8.31	9.85	3.19	(0.03)	6.74	5.75	26	40
Oregon Housing and Community Services Department	3.10	5.40	9.20	7.30	(34.63)	(6.78)	3.88	3.51	10.33	15.28	14.86	12.20	(1.42)	(6.29)	0.41	(3.07)	2.08	2.78	37	41
New Mexico Mortgage Finance Agency	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0.33	3.88	1.61	1.73	5.72	1.12	6.62	6.94	(3.89)	2.67	3.04	n.a.	42
South Carolina State Housing & Finance Development Authority	14.80	19.10	13.80	4.40	16.99	13.49	9.98	9.91	25.35	32.75	37.77	47.76	45.72	43.76	10.96	(17.75)	20.55	28.04	18	43
Idaho Housing and Finance Association	7.32	11.68	4.83	(0.89)	2.37	(3.13)	0.23	(9.29)	(15.29)	(12.49)	(13.64)	(21.52)	(7.84)	12.49	(14.13)	(29.00)	(5.52)	(12.27)	31	44
Average	14.50	13.86	11.64	7.03	10.07	12.17	8.92	8.47	13.68	16.24	16.78	22.03	24.21	22.09	22.60	21.58	15.37	15.84		
% Change	-	(0.04)	(0.16)	(0.40)	0.43	0.21	(0.27)	(0.05)	0.62	0.19	0.67	0.81	1.71	1.61	0.65	0.33				
Median	12.50	13.00	9.20	5.30	9.47	13.49	9.21	9.90	12.64	16.36	16.55	19.84	24.67	20.85	22.60	20.51	15.01	22.76		
% Change	-	0.04	(0.29)	(0.42)	0.79	0.42	(0.32)	0.08	0.28	0.29	0.75	0.47	1.68	1.11	0.79	0.25				

Source: Moody's US Housing Finance Agency Medians 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

FUND BALANCE AS A PERCENT OF BONDS OUTSTANDING

NDHFA maintains a program fund balance that is close to the median for all state HFAs reflecting financial strength without accumulating excessive wealth. NDHFA's single family program is rated Aa1 by Moody's Investor Service. Only six HFAs with whole loan programs have higher ratings.



Source: Moody's US Housing Finance Agency Medians 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

FUND BALANCE AS A PERCENT OF BONDS OUTSTANDING

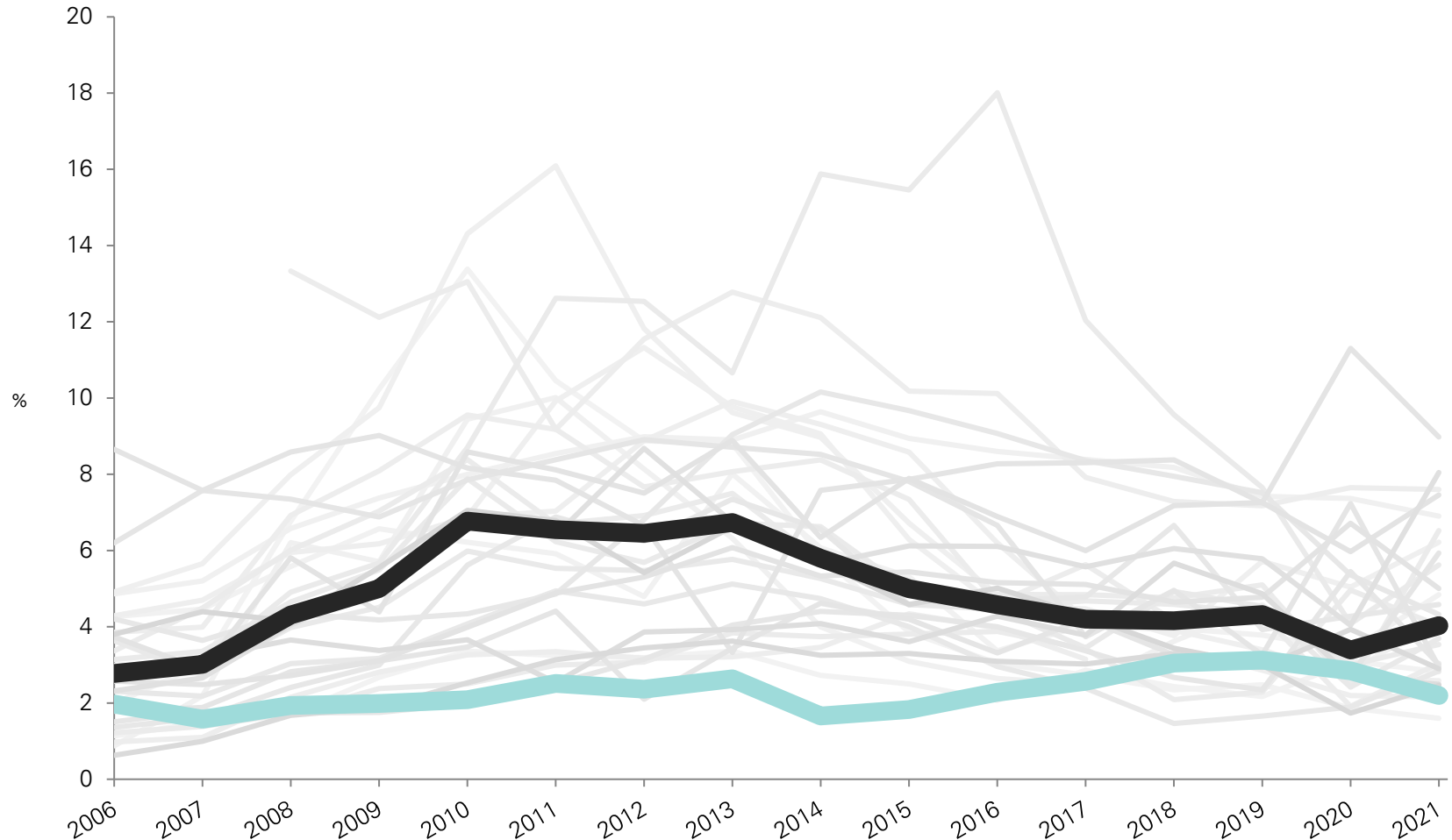
State	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average 2006 - 2021	Average 2016 - 2021	Rank 2006	Rank 2021
Hawaii Housing Finance & Development Corporation	n.a.	n.a.	n.a.	n.a.	13.60	17.13	17.80	34.41	44.40	50.76	62.21	74.28	174.29	170.20	217.82	426.17	108.59	187.49	n.a.	1
Alabama Housing Finance Authority	33.78	35.28	33.98	28.23	41.51	49.70	48.89	55.89	24.03	26.67	10.87	73.93	93.11	143.37	188.53	228.88	69.79	123.11	2	2
Virginia Housing Development Authority	45.90	40.30	35.00	38.10	37.99	37.69	40.95	43.87	55.38	63.96	71.54	82.41	103.50	127.89	114.09	164.01	68.91	110.57	1	3
West Virginia Housing Development Fund	27.90	28.30	29.20	34.00	40.20	38.97	44.30	65.32	74.37	82.30	93.78	132.00	166.88	139.11	133.81	124.08	78.41	131.61	3	4
Kentucky Housing Corporation	11.30	10.00	10.40	10.90	8.56	9.05	9.47	12.38	15.97	21.28	30.83	42.04	49.34	61.31	75.17	95.69	29.61	59.06	15	5
South Carolina State Housing & Finance Development Authority	12.50	11.70	12.00	13.40	29.72	27.79	26.28	30.56	34.49	50.64	65.21	73.21	80.80	81.59	49.40	47.68	40.44	66.31	12	6
California Housing Finance Agency	7.90	7.20	5.70	6.70	6.81	6.78	7.25	8.63	11.14	15.54	20.22	17.75	22.20	25.20	29.60	39.66	14.89	25.77	19	7
Delaware State Housing Authority	4.70	3.30	2.80	2.30	2.30	1.07	1.67	4.99	6.54	8.92	12.39	33.74	37.42	7.36	6.79	38.74	10.94	22.74	27	8
Oklahoma Housing Finance Agency	4.70	5.40	6.20	7.70	9.31	8.31	9.70	9.80	12.94	19.99	27.48	39.69	48.02	30.67	28.97	38.40	19.20	35.54	27	9
Alaska Housing Finance Corporation	12.50	10.90	9.80	16.10	18.54	18.74	23.80	32.35	34.23	49.30	41.85	40.15	37.76	38.74	35.95	38.35	28.69	38.80	12	10
Louisiana Housing Finance Agency	5.00	5.30	4.30	5.00	6.01	8.56	8.30	31.14	14.99	21.81	29.82	33.04	36.82	30.57	42.92	37.29	20.05	35.08	26	11
Indiana Housing Finance Authority	7.80	9.30	10.30	12.40	14.36	16.40	22.26	32.24	43.63	53.78	58.58	58.65	52.56	40.85	32.60	36.57	31.39	46.63	20	12
North Carolina Housing Finance Agency	5.80	6.80	7.60	9.10	11.11	11.47	21.85	26.91	32.83	42.62	54.31	30.46	26.96	31.25	28.72	36.54	24.02	34.71	25	13
Texas Department of Housing and Community Affairs	3.50	3.67	3.48	2.54	6.68	11.41	15.22	18.60	28.34	37.45	36.19	35.02	39.46	26.09	29.78	35.95	20.84	33.75	34	14
Vermont Housing Finance Agency	3.60	3.60	4.90	5.60	7.79	8.16	7.13	6.25	9.63	11.49	14.38	-	18.85	21.53	23.71	34.69	11.33	18.86	32	15
South Dakota Housing Development Authority	12.90	14.00	14.90	15.10	15.68	16.22	20.20	26.11	30.40	32.14	33.38	35.39	33.10	30.46	30.61	34.12	24.67	32.84	11	16
Wisconsin Housing and Economic Development Authority	4.27	4.24	4.73	5.49	7.64	10.16	13.25	19.38	19.38	35.07	40.20	35.41	31.17	30.76	31.46	32.63	20.33	33.60	31	17
New Hampshire Housing Finance Agency	2.50	1.70	0.30	1.40	1.72	3.56	4.01	4.30	4.63	5.27	7.20	9.10	12.27	16.27	22.74	32.55	8.10	16.69	35	18
Connecticut Housing and Finance Authority	20.70	20.80	20.90	21.70	22.00	25.24	26.40	31.87	29.28	28.07	22.38	21.63	20.80	17.81	19.87	28.83	23.64	21.89	5	19
Montana Board of Housing	15.27	13.51	13.10	16.55	12.89	18.10	20.28	25.47	25.74	24.98	25.93	29.75	29.59	26.87	25.05	27.35	21.90	27.42	8	20
State of New York Mortgage Agency	15.22	15.63	14.78	15.08	14.50	16.39	18.54	20.28	21.55	23.69	25.45	26.04	26.37	24.15	25.03	26.97	20.61	25.67	9	21
Wyoming Community Development Authority	18.86	16.70	15.34	16.29	14.86	14.41	15.83	22.46	25.65	30.25	34.06	34.79	29.79	26.43	24.57	25.39	22.85	29.17	7	22
New Jersey Housing and Mortgage Finance Agency	11.30	7.90	7.80	7.50	7.62	10.63	11.92	9.74	12.15	12.83	13.95	27.59	32.10	25.87	23.36	24.77	15.44	24.61	15	23
Idaho Housing and Finance Association	2.43	1.14	(0.29)	0.91	3.83	(0.74)	(0.14)	(1.41)	(1.13)	(0.10)	(8.46)	14.20	15.05	18.94	21.51	24.41	5.63	14.27	36	24
Rhode Island Housing and Mortgage Finance Corporation	11.10	10.30	10.70	11.50	11.42	12.02	12.96	13.49	14.66	16.72	19.21	22.05	27.06	24.08	23.29	22.54	16.44	23.04	17	25
Maine State Housing Authority	14.30	18.40	18.40	16.20	17.21	17.53	19.31	19.42	21.89	21.34	21.03	20.18	19.64	22.82	20.95	22.09	19.42	21.12	10	26
Maryland Community Development Administration	4.70	4.10	4.30	8.70	13.22	17.06	16.11	16.30	16.93	18.62	20.23	22.14	23.93	20.18	18.08	21.37	15.37	20.99	27	27
Massachusetts Housing Finance Agency	11.80	13.00	9.60	10.40	7.95	7.69	10.85	11.23	13.19	15.26	17.21	17.47	15.14	16.58	19.81	20.66	13.62	17.81	14	28
Iowa Finance Authority	6.50	6.90	5.30	7.50	9.22	9.92	11.07	17.09	22.92	28.56	6.08	25.08	21.45	18.80	16.59	17.56	14.41	17.59	21	29
Tennessee Housing Development Agency	24.00	17.30	17.50	18.60	17.53	18.83	20.46	20.29	23.41	22.75	24.03	23.09	29.39	25.60	17.80	17.52	21.13	22.90	4	30
North Dakota Housing Finance Agency	8.50	8.70	8.20	9.40	10.37	10.71	12.88	16.91	19.28	22.25	17.92	20.06	17.65	14.11	13.92	14.17	14.06	16.31	18	31
Illinois Housing Development Authority	4.50	4.00	4.00	8.70	8.84	10.06	10.82	18.14	16.95	28.88	35.18	31.69	23.53	16.51	15.35	13.81	15.68	22.68	30	32
Arkansas Development Finance Authority	n.a.	n.a.	n.a.	n.a.	n.a.	0.36	0.74	1.55	2.30	3.14	4.16	5.25	6.58	7.96	9.45	13.61	5.01	7.83	n.a.	33
Ohio Housing Finance Agency	5.80	4.00	3.50	3.50	3.88	5.57	7.30	6.85	16.19	13.69	15.71	19.44	20.14	16.40	15.19	13.54	10.67	16.74	24	34
Washington State Housing Finance Commission	1.70	2.60	2.80	2.80	2.24	3.21	3.95	5.10	7.20	8.72	15.46	13.13	13.96	12.16	12.95	13.20	7.57	13.48	38	35
Florida Housing Finance Corporation	3.60	2.90	2.30	2.30	3.02	2.73	4.76	8.01	3.00	9.10	6.95	17.39	13.27	13.04	14.58	12.34	7.45	12.93	32	36
Pennsylvania Housing Finance Agency	6.00	6.30	7.50	6.90	6.70	7.43	8.72	9.88	7.57	7.99	10.20	13.14	12.27	12.43	14.89	12.20	9.38	12.52	23	37
Oregon Housing and Community Services Department	6.30	7.10	5.70	6.60	7.04	7.00	8.12	8.75	9.94	11.91	12.28	15.87	13.90	11.69	10.67	12.13	9.69	12.76	22	38
Michigan State Housing Development Authority	n.a.	n.a.	n.a.	n.a.	16.88	20.96	21.60	25.98	24.94	22.10	18.06	13.46	13.69	9.46	11.12	11.88	17.51	12.94	n.a.	39
Mississippi Home Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	1.99	1.53	3.36	4.18	9.64	12.93	12.87	16.99	12.67	10.72	9.36	8.75	12.59	n.a.	40
Utah Housing Corporation	0.10	(0.23)	0.02	1.10	1.01	0.41	(0.08)	0.00	(0.10)	0.30	0.21	0.58	1.29	2.08	6.39	8.30	1.34	3.14	39	41
Minnesota Housing Finance Agency	19.00	13.70	6.30	6.50	6.91	5.49	8.18	8.16	8.45	8.88	8.38	8.35	7.32	7.09	6.54	6.84	8.51	7.42	6	42
Colorado Housing and Finance Authority	1.80	1.90	0.60	2.50	3.35	2.93	6.86	6.12	7.96	9.05	10.32	10.43	38.66	9.32	6.00	4.68	7.66	13.23	37	43
New Mexico Mortgage Finance Agency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.47	3.72	4.09	4.03	3.58	3.27	3.10	5.71	3.38	3.93	3.84	n.a.	44
Average	10.77	10.20	9.59	10.65	12.24	12.72	14.45	18.01	19.44	23.45	25.08	29.90	35.39	33.39	34.82	44.34	22.00	33.82		
% Change		(0.05)	(0.06)	0.11	0.15	0.04	0.14	0.25	0.08	0.21	1.05	1.35	1.45	0.85	0.79	0.89				
Median	7.80	7.20	7.50	8.70	9.22	10.16	11.92	16.60	16.56	21.31	19.71	22.61	25.15	22.17	22.12	25.08	16.06	22.71		
% Change		(0.08)	0.04	0.16	0.06	0.10	0.17	0.39	(0.00)	0.29	1.14	1.23	1.11	0.34	0.34	0.18				

Source: Moody's US Housing Finance Agency Medians 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

DELINQUENCIES AND FORECLOSURES AS A PERCENT OF LOANS

NDHFA's delinquencies and foreclosures are among the lowest for State HFA whole loan programs.



Source: Moody's US Housing Finance Agency Delinquencies and Foreclosures 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

STATE HOUSING FINANCE AGENCY SINGLE FAMILY PROGRAMS

DELINQUENCIES AND FORECLOSURES AS A PERCENT OF LOANS

State	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average	Average	Rank	Rank
																	2006 - 2021	2017 - 2021	2006	2021
California Housing Finance Agency	1.99	3.01	6.77	10.24	13.38	10.46	8.88	8.80	5.86	3.86	3.04	2.73	2.35	2.48	1.87	1.60	5.71	2.20	10	1
Maine State Housing Authority	4.29	4.70	5.95	6.18	6.87	7.04	8.88	9.91	9.31	8.58	6.20	4.19	3.44	2.86	2.20	2.16	6.04	2.97	25	2
North Dakota Housing Finance Agency	1.97	1.58	1.94	1.99	2.09	2.51	2.36	2.63	1.66	1.83	2.28	2.57	3.05	3.13	2.85	2.20	2.30	2.76	9	3
Wyoming Community Development Authority	3.80	4.40	4.15	5.56	7.05	6.79	5.42	6.62	5.71	4.59	5.01	4.28	3.44	2.99	1.74	2.46	4.77	2.98	21	4
West Virginia Housing Development Fund	2.78	3.20	3.65	3.38	3.66	2.54	3.86	3.92	4.08	3.61	4.28	3.78	5.67	4.87	2.69	2.49	3.73	3.90	15	5
Kentucky Housing Corporation	4.92	5.65	7.99	9.75	14.31	16.09	11.82	9.62	8.97	6.72	4.84	4.06	3.91	3.40	2.64	2.59	7.65	3.32	27	6
Alaska Housing Finance Corporation	1.14	1.49	1.70	2.67	3.36	3.25	3.19	3.36	2.73	2.50	2.07	2.86	2.43	2.17	3.10	2.82	2.53	2.68	4	7
Oregon Housing and Community Services Department	2.31	2.18	3.03	3.17	4.08	4.94	4.60	5.12	4.74	4.00	2.96	2.39	1.46	1.66	1.89	2.84	3.24	2.05	11	8
Wisconsin Housing and Economic Development Authority	0.63	0.99	1.68	1.88	2.53	3.13	3.45	3.62	3.25	3.30	3.09	3.02	3.30	2.93	3.93	2.90	2.72	3.22	1	9
South Carolina State Housing & Finance Development Authority	6.20	7.58	7.35	6.88	7.86	8.38	8.91	8.71	8.52	7.81	6.66	3.74	4.96	3.26	7.23	2.95	6.94	4.43	28	10
State of New York Mortgage Agency	1.51	1.79	1.74	1.75	1.98	2.51	3.15	4.04	4.40	4.30	4.00	3.37	2.67	2.34	5.45	3.01	3.00	3.37	7	11
Michigan State Housing Development Authority	n.a.	n.a.	13.33	12.12	13.05	9.19	7.67	8.07	8.38	7.34	4.63	5.63	4.16	4.32	1.91	3.04	7.68	3.81	n.a.	12
New Hampshire Housing Finance Agency	3.14	3.36	4.65	5.49	7.89	6.23	5.69	6.72	6.63	4.95	4.53	4.68	4.59	4.36	3.00	3.54	5.06	4.03	17	13
North Carolina Housing Finance Agency	3.63	2.73	3.98	4.51	5.99	5.53	5.47	5.77	5.27	4.58	4.46	3.45	4.92	4.53	2.42	3.70	4.48	3.80	19	14
Montana Board of Housing	1.22	1.39	1.73	2.38	2.50	2.99	3.07	3.84	3.74	3.81	3.88	3.42	2.09	2.29	4.96	4.03	2.89	3.36	5	15
Idaho Housing and Finance Association	0.87	2.19	6.21	5.71	9.45	10.01	8.14	6.32	4.00	3.09	2.64	2.48	3.62	4.58	2.82	4.19	4.81	3.54	2	16
Pennsylvania Housing Finance Agency	4.21	3.64	4.35	4.18	4.34	4.86	6.81	9.04	10.16	9.67	9.07	8.36	7.95	7.52	5.36	4.32	6.63	6.70	23	17
Rhode Island Housing and Mortgage Finance Corporation	1.36	1.62	2.41	2.99	5.62	6.88	6.25	7.35	6.56	4.57	4.68	4.78	6.66	3.93	4.27	4.58	4.66	4.84	6	18
Colorado Housing and Finance Authority	4.27	4.46	5.58	6.57	6.22	5.92	4.79	8.01	6.07	5.31	3.37	4.06	3.96	3.78	3.39	4.84	5.05	4.01	24	19
Vermont Housing Finance Agency	2.57	2.48	2.72	3.11	3.99	4.88	5.31	6.08	5.33	5.44	5.16	5.11	4.65	4.78	6.72	5.00	4.55	5.25	13	20
New Jersey Housing and Mortgage Finance Agency	2.99	3.03	4.91	5.67	8.70	12.62	12.54	10.66	15.88	15.46	18.01	12.04	9.56	7.65	4.08	5.62	9.59	7.79	16	21
South Dakota Housing Development Authority	1.78	1.88	2.82	3.10	3.47	4.41	2.10	3.44	4.62	4.20	3.31	4.21	3.26	3.12	2.71	5.94	3.23	3.85	8	22
Illinois Housing Development Authority	2.74	3.04	4.27	4.95	6.89	9.93	11.32	9.77	9.06	6.29	4.53	4.47	3.77	5.72	5.04	6.22	6.12	5.04	14	23
Minnesota Housing Finance Agency	3.37	4.49	6.01	7.03	8.39	6.70	6.92	7.50	5.74	5.05	4.85	4.84	4.76	5.10	2.46	6.52	5.55	4.73	18	24
Connecticut Housing and Finance Authority	4.86	5.20	6.58	7.38	8.00	8.54	8.99	8.90	9.64	8.94	8.60	8.39	8.18	7.42	7.37	6.90	7.80	7.65	26	25
Utah Housing Corporation	3.74	2.88	5.81	4.39	8.59	8.12	7.51	8.89	6.34	7.89	6.89	6.00	7.18	7.26	5.97	7.46	6.50	6.77	20	26
Maryland Community Development Administration	3.86	3.99	6.92	8.09	9.55	9.18	11.55	12.78	12.11	10.18	10.12	7.92	7.29	7.17	7.65	7.60	8.56	7.53	22	27
Virginia Housing Development Authority	2.32	2.66	4.05	5.05	6.67	6.40	8.68	6.75	5.63	6.12	6.11	5.57	6.05	5.78	4.04	8.05	5.46	5.90	12	28
Tennessee Housing Development Agency	8.65	7.58	8.59	9.02	8.17	7.85	6.65	3.32	7.58	7.87	8.28	8.31	8.38	7.25	11.30	8.98	7.92	8.84	29	29
Massachusetts Housing Finance Agency	0.98	1.10	2.15	2.81	3.26	3.35	3.17	3.21	3.46	4.34	3.97	3.15	n.a.	n.a.	n.a.	n.a.	2.91	3.15	3	n.a.
Average	3.04	3.25	4.77	5.27	6.60	6.71	6.57	6.76	6.51	5.87	5.38	4.79	4.75	4.44	4.17	4.43	5.27	4.48		
% Change		0.07	0.47	0.10	0.25	0.02	(0.02)	0.03	(0.04)	(0.10)	(0.08)	(0.27)	(0.30)	(0.32)	(0.29)	(0.18)				
Median	2.78	3.01	4.31	5.00	6.77	6.55	6.45	6.73	5.80	5.00	4.58	4.20	4.16	4.32	3.39	4.03	5.06	3.87		
% Change		0.09	0.43	0.16	0.35	(0.03)	(0.01)	0.04	(0.14)	(0.14)	(0.08)	(0.35)	(0.38)	(0.25)	(0.32)	(0.12)				

Source: Moody's US Housing Finance Agency Delinquencies and Foreclosures 2006 - 2021; Where Applicable, Weighted Averages Shown for HFAs with More than One Single Family Bond Indenture

RATING AGENCY **FUND BALANCE CRITERIA**

Parity Asset to Debt Ratio (PADR)

- PADR Calculations
 - Assets
 - Cash
 - Investments
 - Mortgages
 - Deferred Servicing/Other Assets
 - Liabilities
 - Bonds
 - Accrued Interest
- Aa1 PADR Requirement
 - 104%, after loan loss adjustment

Moody's Loan Loss Model

- Applicable to whole loan portion of assets
- Default frequency
 - Historical Delinquency
 - Economic Diversity/Trend
 - Property & Mortgage Type
- Default severity
 - Property Valuation
 - Time to Foreclosure/Liquidation
 - Insurance Coverage
- Loan to value ratio
- Issuer management

RATING AGENCY **CASH FLOW RUNS**

Moody's Cash Flow Scenarios

High Interest Rate Environment

- 15% PSA prepayment – full loan origination
- 500% PSA prepayment – full loan origination
- 15% PSA prepayment – non-origination of loans
- 500% PSA prepayment – non-origination of loans
- Bank bond term out cash flow run – full loan origination
- Additional market stress cash flows as requested

Low Interest Rate Environment

- 15% PSA prepayment – full loan origination
- 500% PSA prepayment – full loan origination
- 15% PSA prepayment – non-origination of loans
- 500% PSA prepayment – non-origination of loans
- Bank bond term out cash flow run – full loan origination
- Additional market stress cash flows as requested

Moody's Key Stress Assumptions

- Prepayment speed on mortgages
 - Low of 15% PSA prepayment speeds
 - High of 500% PSA prepayment speeds
- Reinvestment rates capped at bond yield
- High interest rates for variable rate bonds
- Basis risk for interest rate swap receipts
- Investment and swap counterparty minimum rating of A2/P-1
- Bank bonds
 - One year of amortization
 - High bank bond interest rates

Events That Would Increase Cash Flow Stress

- Volume growth in NDHFA's program
- Shift in mortgage insurance from government to private mortgage insurance
- Downgrade of US Government obligations
- Downgrade of counterparties (investment providers, swap providers, PMI companies)
- Changes in Moody's standards
 - Investment portfolio requirements
 - Mortgage portfolio requirements
 - Stress cash flow scenarios
- Changes in economic conditions
 - State or national recession
 - Losses on mortgage portfolio
- Unforeseen events

NDHFA FUND BALANCE ANALYSIS (in thousands)

Description	Agency Operating Funds	1994 Resolution	% of O/S Bonds ¹	% of Future Bonds ²	2009 Resolution	% of O/S Bonds ¹	Combined Total
Net Assets (from Balance Sheet, June 30, 2023)	14,312	195,631			22,261		232,204
Less assets not available							
Accounting Items (from Balance Sheet, June 30, 2023)							
Due from HUD	844	-			-		844
Other (interfund transfers)	1,622	-			-		1,622
Prepaid expenses	71	28			-		99
Service release premium	8,447	-			-		8,447
Prefunding of other obligations covered by future earnings							
One year of operating expenses	-	9,200			300		9,500
Community Land Trust	-	1,500			-		1,500
Amounts to maintain Moody's rating							
Moody's Parity Adjusted Debt Ratio (PADR)	-	62,013	4.0%		1,802	4.0%	63,815
Moody's mortgage portfolio requirements	-	58,912	3.8%		360	0.8%	59,272
Moody's counterparty requirements	-	8,750	0.6%		1,225	2.7%	9,975
Moody's stress cash flows	-	-	-		-	-	-
Amounts for one year of bond issues ²							
Cost of issuance	-	4,125		0.9%	-		4,125
Lag in mortgage payments	-	1,760		0.4%	-		1,760
Negative arbitrage	-	440		0.1%	-		440
Down payment/closing cost assistance	-	7,612		1.7%	-		7,612
Additional Moody's PADR	-	17,600		4.0%	-		17,600
Additional Moody's mortgage portfolio requirement	-	16,720		3.8%	-		16,720
Additional stress on cash flows	-	2,235		0.5%	-		2,235
Adjusted Fund Balance	3,328	4,736			18,573		26,637

¹ Bonds outstanding as of June 30, 2023 1,550,316 45,061

² Assumes future annual bond issuance of 440,000

Future events that would impact the adjusted fund balance

- Volume growth in NDHFA's program
- Shift in mortgage insurance government to private mortgage insurance
- Change in Moody's standards
 - Investment portfolio requirements
 - Mortgage portfolio requirements
 - Stress cash flow scenarios
- Downgrade of US Government obligations
- Downgrade of counterparties (investment and swap providers, PMIs)
- Changes in economic conditions
 - State or national recession
 - Losses on mortgage portfolio
- Unforeseen events

NDHFA **AVAILABLE CASH ANALYSIS** (in thousands)

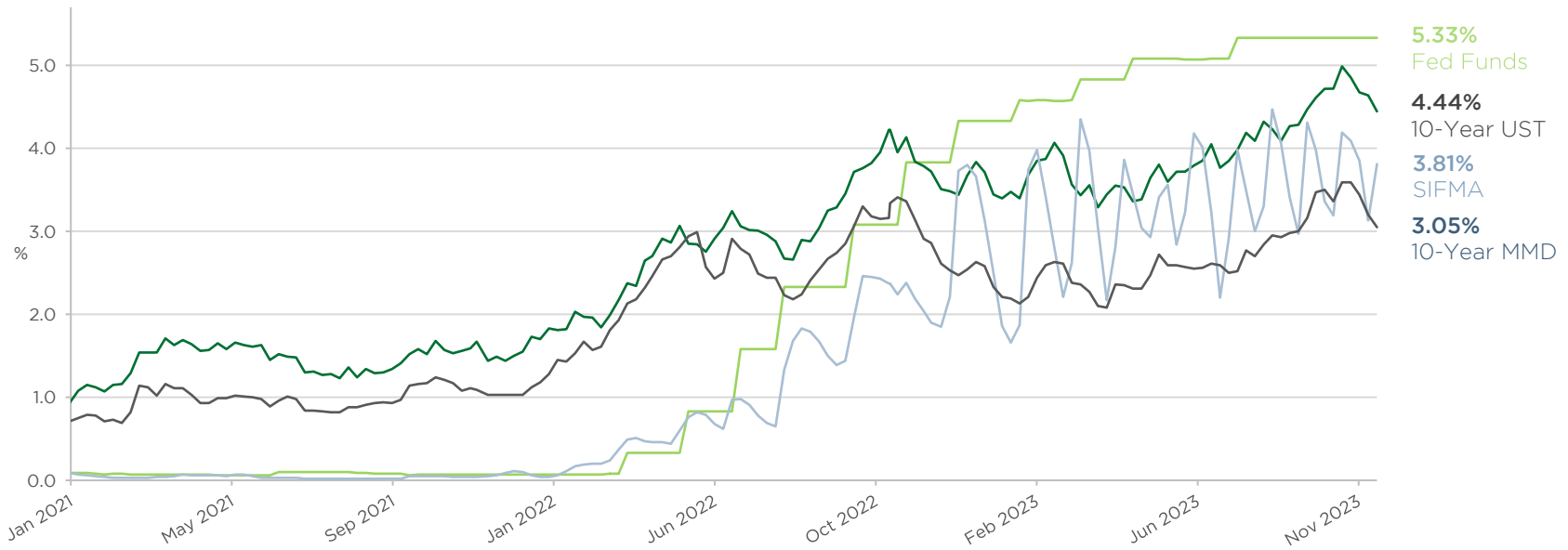
Description	Agency Operating Funds	1994 Resolution	2009 Resolution	Combined Total
Cash and Cash Equivalents (from Balance Sheet, June 30, 2023)	35,999	187,617	5,839	229,455
Less unavailable cash				
Funds held in trust (borrower escrow payments)	18,824	-	-	18,824
Resolution/IRS Requirements				
Rebate Fund	-	-	-	-
Debt Service Reserve Fund	-	7,689	458	8,147
Bond Proceeds Fund	-	60,477	-	60,477
Bond debt service payment on July 1, 2023	-	65,906	3,198	69,104
Next bond redemption	-	17,668	743	18,411
Bond costs (trustee, liquidity and remarketing agent fees)	-	4,671	116	4,787
Amounts to maintain Moody's rating				
Moody's stress cash flows	-	9,000	-	9,000
Adjusted Available Cash	17,175	22,207	1,324	40,705

NDHFA **HIGHLIGHTS**

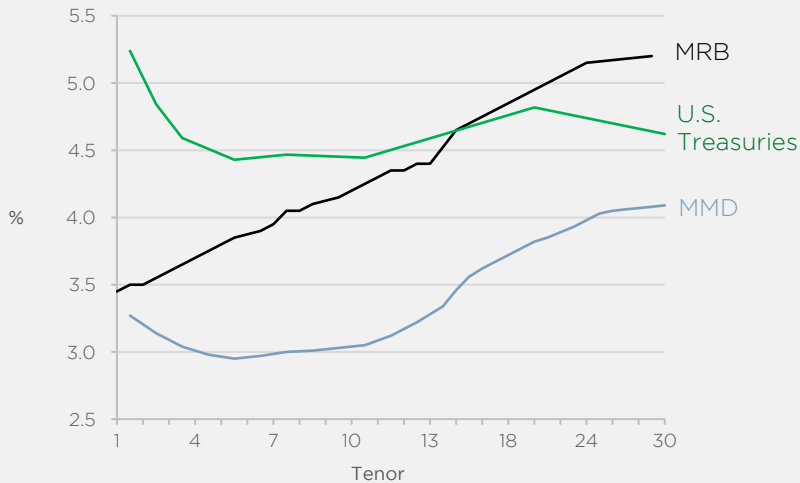
- / Provides mortgage rates currently **1.00%** lower than average rates in the State
- / Consistently **high mortgage market penetration** among HFAs
- / Provided over **\$11 million** on down payment and closing cost assistance to borrowers in 2022
- / Single family program rated Aa1 by Moody's Investor Service. Only **six** HFAs with whole loan programs have higher ratings
- / Collaborates with **41** State and **nine** national participating lenders
- / Ability to use **full range** of bond financing techniques including variable rate bonds and swaps
- / Services mortgage loans in-house. **Fourteen** HFAs service their own mortgages
- / Funds mortgage loans through both bond financing of whole loans and secondary market sales of GNMA mortgage backed securities. Only **five** HFAs are positioned to provide both financing vehicles
- / Services among the **best performing** HFA mortgage portfolios

RECENT INTEREST RATE TRENDS

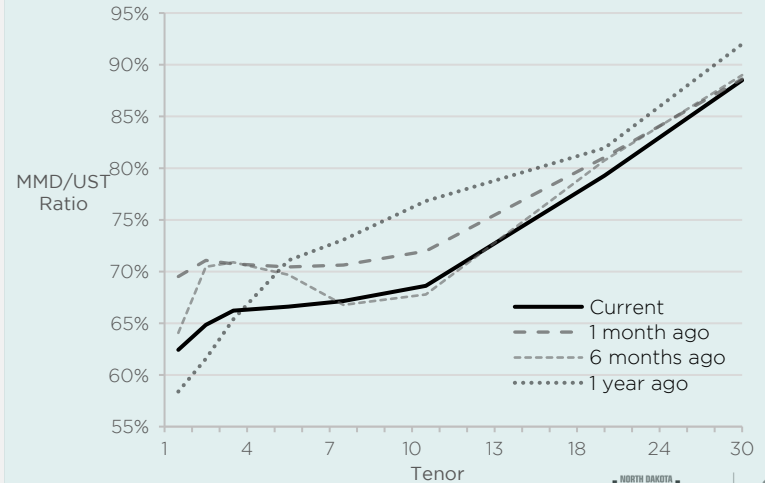
BENCHMARK INTEREST RATES



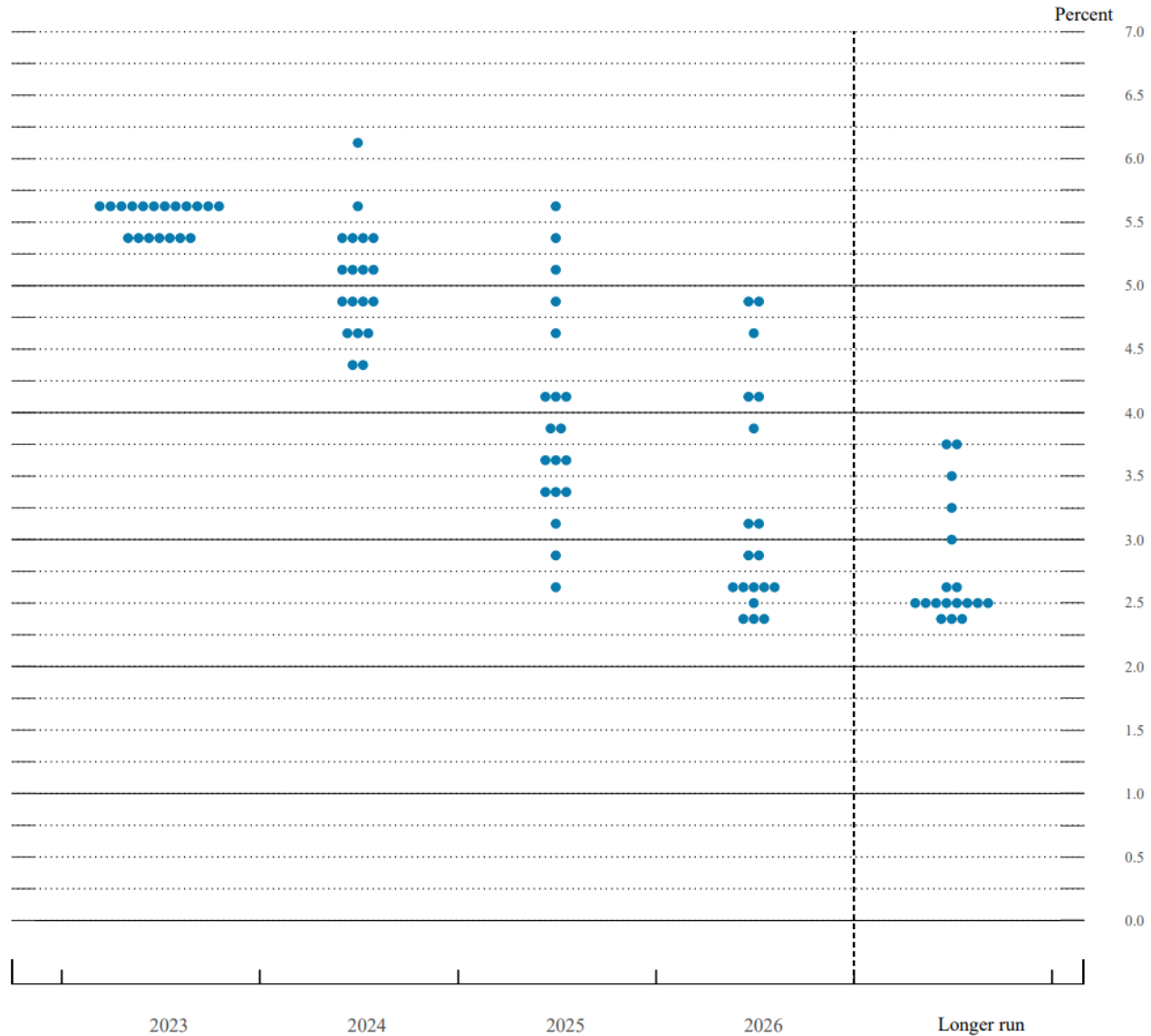
MRB, UST, AND MMD YIELD CURVES



MMD vs. UST CURVE RATIO OVER TIME



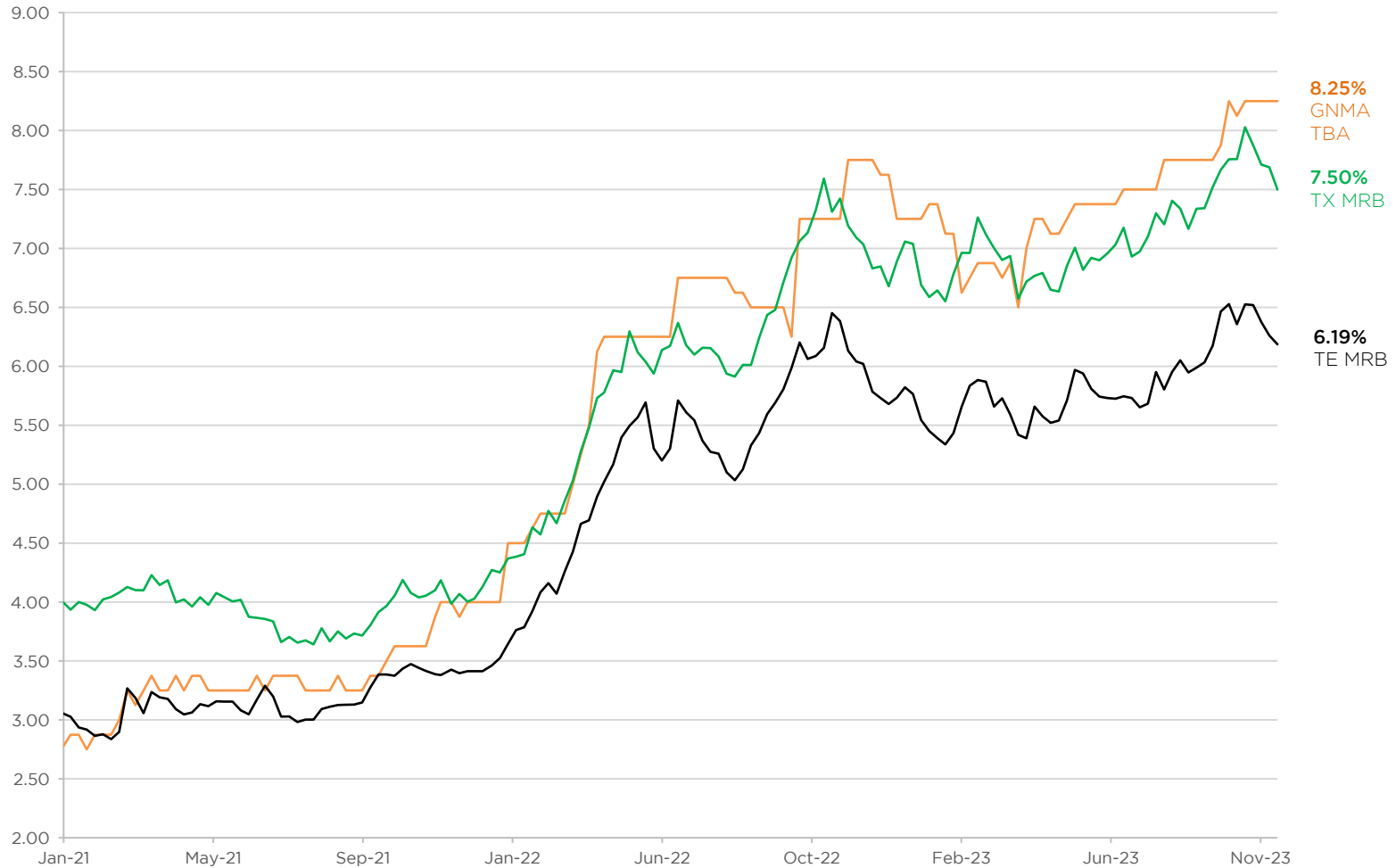
FOMC DOT PLOT **INTEREST RATE PROJECTIONS**



Source: FOMC Summary of Economic Projections, September 20, 2023

SINGLE FAMILY MORTGAGE RATES

GOVERNMENT MORTGAGE INSURANCE, DOWNPAYMENT ASSISTANCE PROVIDED



MRB: rate set to earn full spread (3-5 points, depending on prepayment speed)
TBA: rate set to earn 1.0 points including pay up

MRB structure: fixed rate, level debt, 100% PSA back-ended PAC

November 28, 2023

To: North Dakota Industrial Commission

From: David Flohr, Executive Director

RE: Multifamily Application Award Summary for Low Income Housing Tax Credit, HOME Investment Partnership Program, National Housing Trust Fund, and Housing Incentive Fund

North Dakota Housing Finance Agency (NDHFA) held a multifamily rental production and rehabilitation application round to allocate funds available through the Federal Low Income Housing Tax Credit (LIHTC), HOME Investment Partnerships (HOME), National Housing Trust Fund (HTF) and the state Housing Incentive Fund (HIF). The application deadline was Sept. 30, 2023.

The Agency received applications from twelve applicants requesting assistance from multiple funding sources resulting in the application round being oversubscribed by a combined \$9 million under the federal programs.

The scoring and ranking of the applications was completed in November. Eight projects were selected for funding. Detailed summaries of the successful projects are provided below. A listing of all the applications received is provided as an attachment.

BACKGROUND: FUNDING AVAILABILITY

Low Income Housing Tax Credit (LIHTC)

The LIHTC program was created with the passage of the Tax Reform Act of 1986 and made permanent in 1993. LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing for affordable rental housing. Annually the IRS establishes a per capita rate and a small state minimum volume cap for which states receive their credit allocation. North Dakota receives the small state minimum and forward allocates credits. A total of \$3,728,172 credits were available, and requests received totaled \$7,668,692 (\$3.9 million oversubscribed).

HOME Investment Partnership Program (HOME)

The HOME program is funded by HUD and is provided to states as formula grants to provide a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income households. HOME is the largest federal block grant available to state and local governments and is designed exclusively to create affordable housing for low-income households. North Dakota receives the small state minimum of \$3 million. NDHFA became administrator of the program July 1, 2021. For the 2022 application round a total of \$2,669,950.01 was made available for multifamily rental production and rehabilitation. Requests received totaled \$5.8 million. (\$3.1 million oversubscribed)

National Housing Trust Fund (HTF)

Created through the Housing and Economic Recovery Act of 2008 and first funded in 2016 through a directed set aside from a percentage of new mortgage purchases made by Fannie Mae and Freddie Mac. North Dakota receives the small state minimum which averages \$3 million. 100 percent of the fund must be used to create units targeted for 30 percent area median incomes. A total of \$2,852,413.21 was made available and a total of \$5.6 million in requests were received. (\$2.8 million oversubscribed)

Housing Incentive Fund (HIF)

Authorized by the 68th Legislative Assembly as a general fund appropriation for \$13.75 million, removed requirement that 10 percent of the fund be set-aside to prevent homelessness, and added single family projects in a developing community or for a community land trust project. A total of \$1.75 million was set aside for the development of a single-family allocation plan leaving up to \$12 million available to award during the multifamily application round. A total of eight applications were received requesting \$7.7 million.

SUCCESSFUL APPLICATION SUMMARY

The Gardenette Phase 1, Phase 2, and Phase 3

Project Location: Multiple Buildings: Gardenette Drive, Jamestown

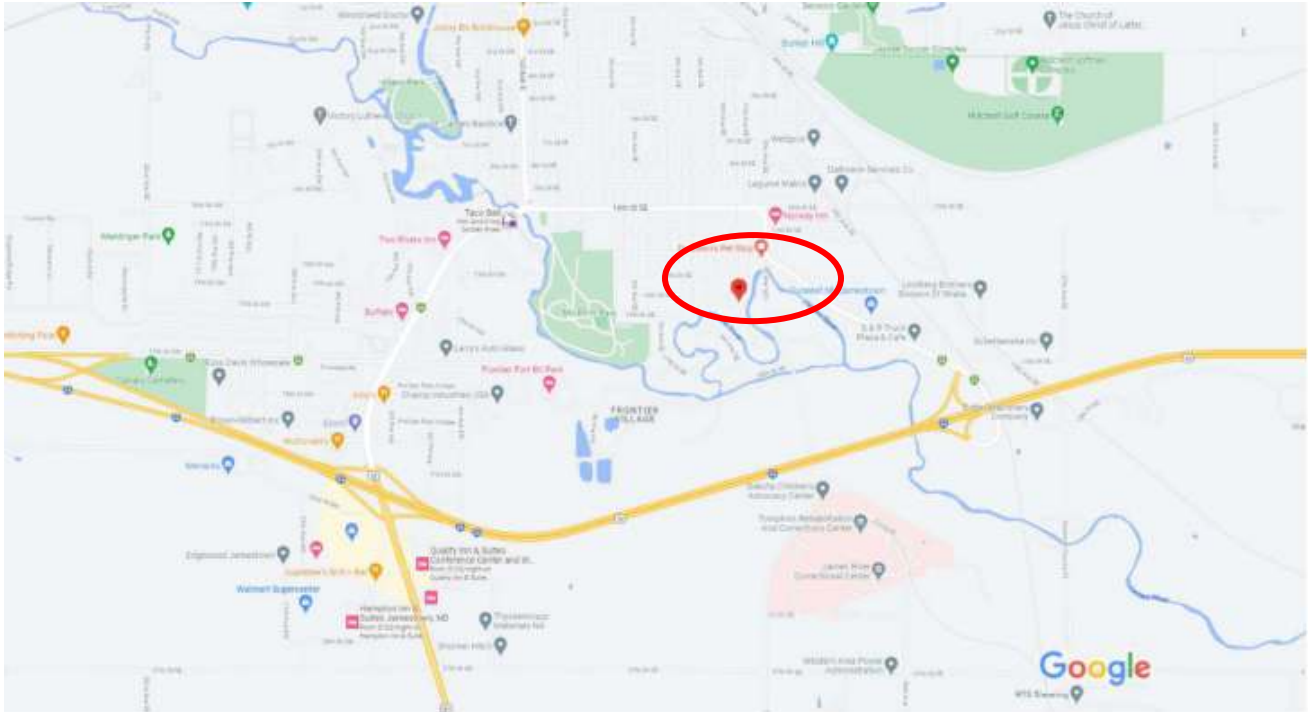
The Gardenette is a multiphase acquisition rehab project proposing to acquire and rehab an existing 168-unit development. The development is currently comprised of 42 single-story, slab-on-grade fourplexes. All existing 168 units are one bedroom. When construction is complete the rehabilitated development will host a mix of unit sizes to accommodate the variety of household sizes.

The project is divided into phases to maximize funding sources. Each phase is a separate application and must compete on its own. In phase 1, A total of 40 units, 8 three-bedroom units and rehab 32 one-bedroom units. In phase 2, rehabilitation of 40 one-bedroom units. And in phase 3, 50 one-bedroom and 20 two-bedroom units to round out the entire development and ensure we're meeting the housing needs in Jamestown. In total 150 units down from 168. Total Development costs include \$13 million for phase 1, \$12.8 million phase 2, and \$22.6 million for phase 3 for a total of \$58 million.

Stride Development PBC, St. Paul, MN, is the project developer who will be partnering with Community Works ND (CWND) a non-profit partner who will be part of the final ownership entity. CWND will provide property management and will be contracting with a community service provider to provide tenant support coordination services to the residents.

All three applications were selected for funding. Phase 1 to receive \$1,100,000 of 9% LIHTCs. Phase 2 to receive \$1,082,900 of 9% LIHTCs, and phase 3 to receive \$1,032,000 of 4% LIHTCs, \$3,000,000 in HIF, and will require a tax exempt bond issuance which is still to be determined.

The Gardenette, Jamestown



Avalon At Mandan

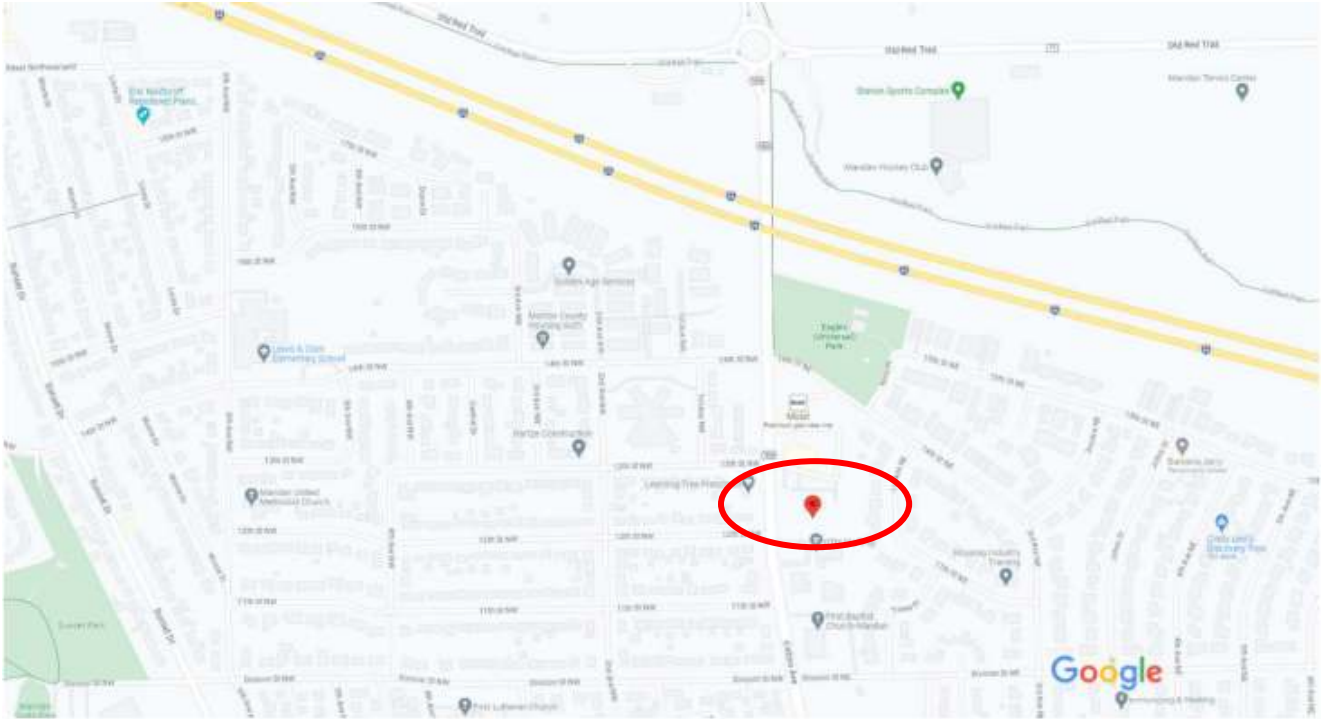
Project Location: 1300 Collins Avenue, Mandan.

Avalon at Mandan is the new construction of a 25-unit two-story rowhome project, all of the units have 3-bedroom floor plans to accommodate households with children. The project is an infill development and is located in close proximity to both an elementary and middle school, and is not far from the new high school development. The project is also walking distance from a universal park. Project amenities include onsite leasing office and community room space. The project will be partnering with a local service provider to provide tenant support coordination onsite. Total development costs are estimated at \$9.4 million.

The project is a joint venture with Domera Development, LLC, a Georgia LLC, and CUBIT Development Group, LLC. Both organizations, while being new to North Dakota, have experience developing an affordable housing projects. Property Management will be provided by Bedrock Property Management, LLC.

The application was awarded \$975,000 in 9% LIHTCs.

Avalon at Mandan 1300 Collins Avenue, Mandan



NEX Senior

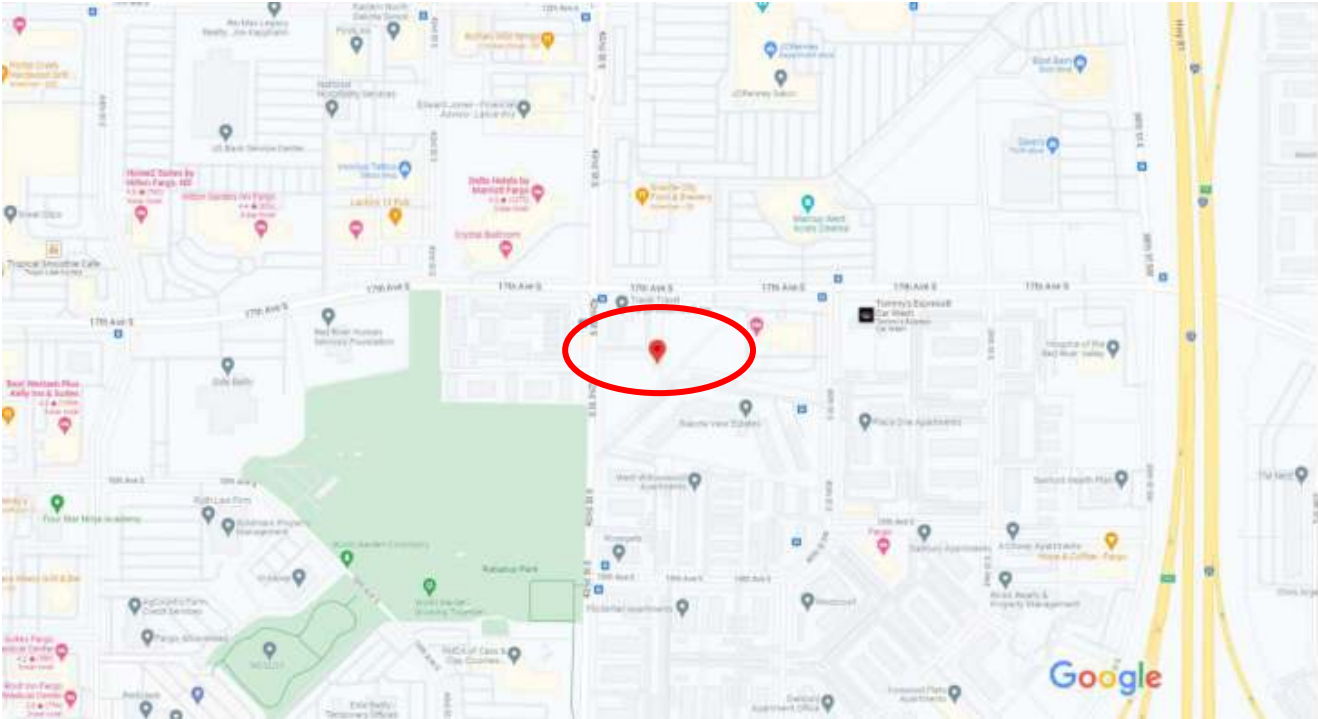
Property Location: 1728 42nd Street South, Fargo

The NEX Senior is a 40-unit, new construction senior community located in the West Acres neighborhood. The project is comprised of 1- and 2- bedroom units as well as onsite management and integrated supportive services. Onsite amenities include a fitness center, community room, in-unit laundry, resident storage, and first floor garage parking. This infill development is in close proximity to pharmacy, grocery, and public transit. The property will be providing tenant support coordination through a local service provider. The total development costs are estimated to be \$14.7 million.

This project will be developed and owned by Commonwealth Development with property management contracted with MetroPlains Management.

The application was awarded \$1,100,000 in 9% LIHTCs, \$1,558,248 in HOME, and \$2,852,413.21 in HTF funds.

NEX Senior, Fargo.



Dakota Apartments- CCI Apartments

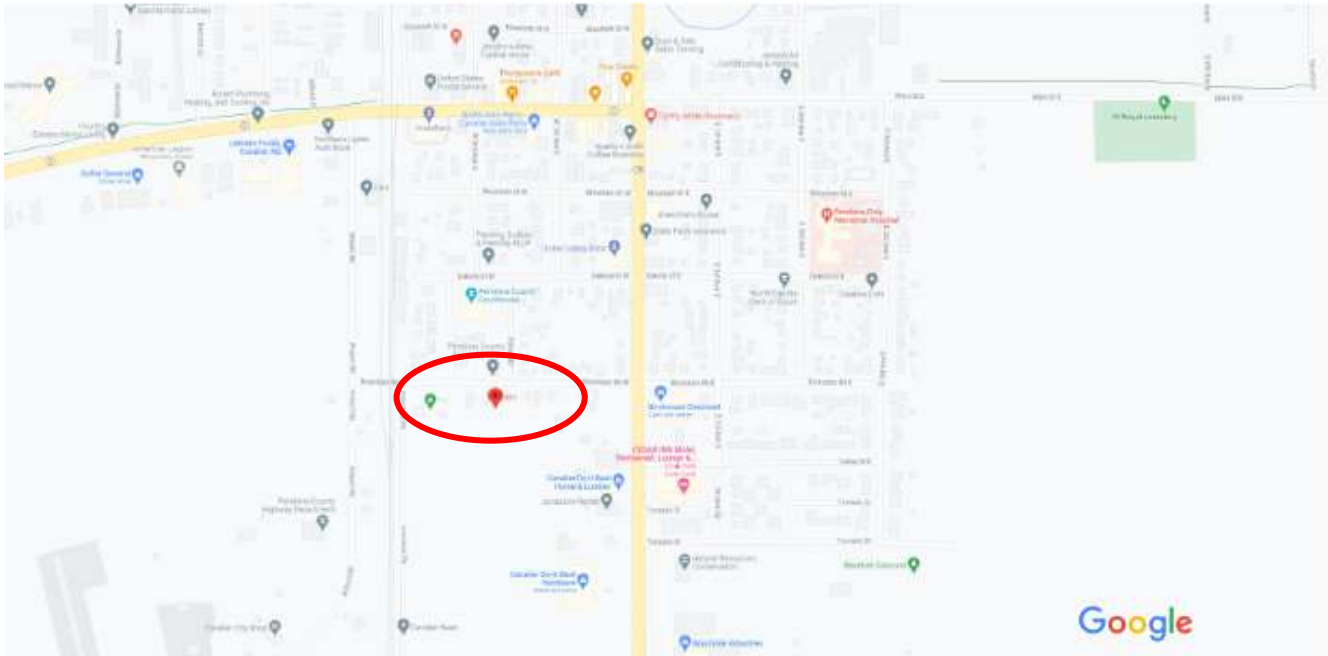
Property Location: 301 Boundary Rd W. Cavalier

The Dakota Apartments is a new construction of a 2-story, eight-unit apartment building located in Cavalier. The project proposed will replace an 8-unit complex that was lost to fire several years ago. All units will be 2-bedroom, 2-bathroom, with in unit laundry, and detached garages. The project has an estimated total development cost of \$3,075,000.

The project is being developed by Red River Community Housing Development Organization (CHDO) a non-profit organization that is closely related to the Red River Regional Council and has been inactive for several years. The final ownership will be a local investor group. Property management is yet to be determined.

The application was awarded \$1,700,000 in HIF funding.

Dakota Apartments, Cavalier



Additional Awards

During the application round, the agency received three applications for additional funding from previously selected applications, all three projects were selected for funding. Projects that submit an award for additional funding are competitively selected based on score, the amount of the request, and available funds.

Jewel City 1 Rehab 15 2nd Street NE, Rolla

Acquisition and rehabilitation of a 16-unit USDA rural property that is designated for elderly and disabled households. Built in 1986, the property features all one-bedroom units with a common area facility and a large community room. The property has not had substantial renovations in 24 years. Rehabilitation includes major plumbing repair, complete kitchen and bathroom updates, new exterior doors and security, upgraded HVAC and updates to accessibility. Total project cost is now estimated at \$5.4 million, up from initial estimates of \$3.8 million.

The project is being developed and is owned by Affordable Housing Developers Inc., Dickinson.

The application received a initial commitment of \$1,598,600 HIF and \$2,013,800 HOME and received additional commitment of \$450,000 HOME and \$700,000 HIF for total funding of \$2,463,800 HOME and \$2,298,601 HIF.

Boulevard Avenue Apartments

Boulevard Avenue Apartments is the final redevelopment of a former nursing home and senior living campus. The current property located on 4.3 acres consists of a three-story building and a two-story building. The proposed renovations included completing the rehab required on existing two-story building (40 units) also known as Porter Place. The initially proposed total development costs were estimated at \$16.188 million.

The project's construction phase struggled with materials and labor delays and inflationary cost increases. These delays have increased total development costs to over \$17 million. The project is primarily completed, fully leased and is working on permanent conversion.

The application received allocations of Tax-Exempt Bonds, 4% LIHTCs, HIF from the agency and NSP and HOME Funding from the City of Bismarck under the Department of Commerce. The initial HOME funding was \$689,650.

The project was developed by and is owned by Community Works ND, Mandan.

The application was selected to receive an additional award of \$661,702 of HOME funds for a total HOME investment of \$1,351,352.

Washington Court Apartments

Washington Court Apartments is an acquisition/rehabilitation of a four-building rental housing project currently owned by Burleigh County Housing Authority. Burleigh County Housing Authority will convert the complex from authority owned to a project based rental assisted project. Community Homes, a non-profit arm of the housing authority, will acquire and own the project while the housing authority will continue to manage the property. All residents will receive rental assistance through the project-based assistance and will pay no more than 30 percent of their income towards rent. By converting to a non-profit owned, single asset entity,

The initial total development costs totaled \$14.6 million, but now are estimated at \$16.4 million. Additionally, increased interest rates are affecting the amount of debt the projects' can carry.

The application received a commitment of \$918,750 9% LIHTCs in 2022. The 2023 application requested an increase of \$235,442 in 9% LIHTCs and a HIF allocation of \$300,000. The project did not score high enough to be selected for the additional LIHTCs but 7 received a commitment for \$300,000 HIF.

2023 Annual Application Round- Applications Due 9/29/2023

9% LIHTC Available 3,728,172 HOME Available \$ 2,669,950.01 Max LIHTC per Project: 34% \$ 1,267,578
 HIF Available \$ 12,097,993.51 HTF Available \$ 2,852,413.21

Development Name	Request for Set Aside	Applicant Developer	Location	Total Units	Type of Development	Target Population	LIHTC 9 Requested	LIHTC 4 Requested	HIF Requested	HOME Requested	HTF Requested	Development Cost
Avalon at Mandan		Domera Holdings	Mandan	25	New Construction	General Population	967,700					\$ 9,409,934.00
Boulevard Ave Apts		Community Works ND	Bismarck	120	Rehabilitation	General Population				\$ 661,702.00		\$ 16,538,359.00
CCI Apartments		Red River CHDO	Cavalier	8	New Construction	General Population			\$ 1,700,000.00			\$ 3,075,000.00
Eison Shores I		Housing Authority of Cass County	West Fargo	35	New Construction	Senior	1,082,900		\$ 300,000.00	\$ 2,054,013.00	\$ 1,000,000.00	\$ 16,131,880.00
Eison Shores II		Housing Authority of Cass County	West Fargo	36	New Construction	Senior	1,082,900		\$ 300,000.00	\$ 775,302.00		\$ 13,604,194.00
Engle Court		Minot Housing Authority	Minot	36	New Construction	General Population	1,051,050		\$ 1,100,000.00	\$ 700,000.00	\$ 2,200,000.00	\$ 16,545,314.00
Gardenette, Phase 1	Non-Profit	Stride Development	Jamestown	40	Rehabilitation	General Population	1,082,900					\$ 13,360,055.00
Gardenette, Phase 2	Non-Profit	Stride Development	Jamestown	40	Rehabilitation	General Population	1,082,900					\$ 12,836,164.00
Gardenette, Phase 3	Non-Profit	Stride Development	Jamestown	70	Rehabilitation	General Population		968,202	\$ 3,000,000.00			\$ 22,649,102.00
Jewel City 1	CHDO	Affordable Housing Dev Inc	Rolla	16	Rehabilitation	Senior (62+)			\$ 700,000.00	\$ 450,000.00		\$ 5,414,940.00
NEX Senior		Commonwealth Development	Fargo	40	New Construction	Senior (55+)	1,082,900		\$ 300,000.00	\$ 1,200,000.00	\$ 2,454,353.00	\$ 14,778,624.00
Washington Court	Non-Profit	Community Homes of Bismarck	Bismarck	96	Rehabilitation	General Population	235,442		\$ 300,000.00			\$ 16,441,790.00
12	5			562			7,668,692	968,202	\$ 7,700,000.00	\$ 5,841,017.00	\$ 5,654,353.00	\$ 160,785,356.00
Amount Oversubscribed							3,940,520		\$ (4,397,993.51)	\$ 3,171,066.99	\$ 2,801,939.79	

Docket for Hearing
Thursday, November 16, 2023
N.D. Oil & Gas Division N.D. Oil & Gas Division 1000 East Calgary Avenue

Case No. 30460, Order No. 33073: In the matter of a hearing called on a motion of the Commission to consider the confiscation of all production-related equipment and salable oil at the Carpentier 1-16 well (File No. 9965), NENE Section 16, T.163N., R.91W., Portal Field, Burke County, ND, operated by WW Oilfield Services, or any working interest owner, pursuant to NDCC §§ 38-08-04 and 38-08-04.9.

Docket for Hearing
Thursday, October 26, 2023
N.D. Oil & Gas Division N.D. Oil & Gas Division 1000 East Calgary Avenue

Case No. 30461, Order No. 33074: In the matter of a hearing called on a motion of the Commission to consider the confiscation of all production-related equipment and salable oil at the BP NORTH HAAS 1-4-20-163-82 well (File No. 30616), SENE Section 20, T.163N., R.82W., North Haas Field, Bottineau County, ND, operated by Noah Energy Inc., or any working interest owner, pursuant to NDCC §§ 38-08-04 and 38-08-04.9.

Docket for Hearing
Thursday, October 26, 2023
N.D. Oil & Gas Division N.D. Oil & Gas Division 1000 East Calgary Avenue

Case No. 30462, Order No. 33075: In the matter of a hearing called on a motion of the Commission to consider the confiscation of all production-related equipment and salable oil at the BP NORTH HAAS 4-1-20-163-82 well (File No. 30638), NESE Section 20, T.163N., R.82W., North Haas Field, Bottineau County, ND, operated by Noah Energy Inc., or any working interest owner, pursuant to NDCC §§ 38-08-04 and 38-08-04.9.

Docket for Hearing

October 9, 2023

N.D. Oil & Gas Division N.D. Oil & Gas Division 1000 East Calgary Avenue

October 9, 2023

N.D. Oil and Gas Division Dickinson Field Office, 926 East Industrial Drive, Dickinson, ND

October 10, 2023

Clarion Hotel and Suites, 1505 15th Ave West, Williston, ND

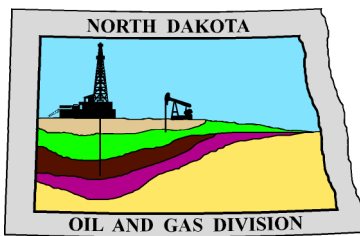
October 10, 2023

N.D. Oil and Gas Division Minot Field Office, 7 Third Street SE, Suite 107, Minot, ND

November 17, 2023

N.D. Oil & Gas Division N.D. Oil & Gas Division 1000 East Calgary Avenue

Case No. 30329, Order No. 32941: On a motion of the Commission to consider amendments to the "General Rules and Regulations for the Conservation of Crude Oil and Natural Gas" codified as Article 43-02 North Dakota Administrative Code.



Oil and Gas Division

Lynn D. Helms - Director Mark F. Bohrer - Assistant Director

Department of Mineral Resources

Lynn D. Helms - Director

North Dakota Industrial Commission

www.dmr.nd.gov/oilgas/

TIMETABLE FOR ADOPTING OIL AND GAS RULES (tentative in RED FONT)

2023

- Jun 27:** Request staff ideas f/rule changes (email them with deadline)
- Jul 14:** Deadline to receive interoffice comments on proposed rules
- Sep 3:** Send legal ads to North Dakota Newspaper Association for rules notice
- Sep 7:** IC meeting—received approval to proceed with proposed rulemaking
- Sep 8:** File full notice and rules with Legislative Council (LC) via email
LC sends rules notice to interested parties within 15 business days after receiving them
- Sep 9:** All papers (10 daily + 42 weekly) publish proposed rules notice Sep 3 – Sep 9
- Sep 11:** Write regulatory analysis for rules impacting industry > \$50,000
- Oct 9:** 8am CDT: Rules hearing (Case 30329) Oil and Gas Division Office, 1000 E Calgary Ave, Bismarck (Hearing must be no sooner than 20 days from the date of last publication)
1pm MDT: Rules hearing, Oil and Gas Division Field Office, 926 E Industrial Drive, Dickinson
- Oct 10:** 8am CDT: Rules hearing, Clarion Hotel and Suites, 1505 15th Ave West, Williston
1:30pm CDT: Rules hearing, Oil and Gas Division Field Office, 7 Third St SE, Suite 107, Minot
Minimum ten-day comment period starts (to receive input on proposed rules)
- Oct 16:** Send legal ads to North Dakota Newspaper Association for additional rules notice
- Oct 20:** Comment period ends from first hearing—10 days from final hearing date (ten-day mandatory)
- Oct 28:** All papers (10 daily + 42 weekly) publish proposed rules notice Oct 22 – Oct 28
- Oct 30:** File second full notice and rules with Legislative Council (LC) via email
LC sends rules notice to interested parties within 15 business days after receiving them
- Oct 31:** IC meeting—request approval to proceed with proposed rulemaking
- Nov 17:** 9am CDT: Rules hearing (Case 30329 continued) Oil and Gas Division Office, 1000 E Calgary Ave, Bismarck (Hearing must be no sooner than 20 days from the date of last publication)
- Nov 22:** Finalize responses to all comments received (oral at hearings plus written comments)
Finalize appropriate amendments to rules
- Nov 27:** Comment period ends from second hearing—10 days from final hearing date (ten-day mandatory)
- Nov 27:** Finalize any additional responses to all comments received (oral at hearings plus written comments)
Finalize appropriate amendments to rules
- Nov 28:** IC meeting-request rule approval with ICO 32941 (Case 30329)
- Dec 1:** Mail ICO 32941 to all interested parties including sponsors; prepare affidavit of mailing

- Dec 21:** Complete small entity regulatory analysis—required to minimize adverse impact on small entities
- Dec 21:** Complete small entity impact statement—required if an adverse impact on small entities
- Dec 22:** Submit final rules to Attorney General (AG) for legal opinion

2024

- Jan 22:** Receive opinion from AG's office
- Jan 23:** File rules and AG opinion with LC
(Rules filed with LC between Nov 2 and Feb 1 become effective Apr 1)
- Feb 12:** Notify all interested parties (and post on web) of the Administrative Rules Committee hearing
- Mar 5:** Administrative Rules Committee Hearing
- Apr 1:** Adopt final rules



**NORTH DAKOTA INDUSTRIAL COMMISSION
DEPARTMENT OF MINERAL RESOURCES
OIL AND GAS DIVISION**

**CASE NO. 30329
SUMMARY OF PROPOSED 2024 RULES**

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-03 OIL AND GAS CONSERVATION								
43-02-03-01	Definitions	3	Add definition for "Inactive pipeline"	10/9/2023	Oral + Written	Brady Pelton-North Dakota Petroleum Council (NDPC)-Vice President and General Counsel The NDPC questions relevance of proposed language defining "inactive pipeline"; if definition is necessary, clarify what "removed from service means".	43-02-03-29.1(2)(e) defines "in-service date". Change "been removed from service" to "not transported fluid".	The proposed amendment will be further modified to clarify definition.
		5	Clarify definition for "Stratigraphic test well"			NO COMMENTS RECEIVED	No response necessary.	The proposed amendments will be adopted without any further modification.
		5	Add definition for "Subsurface observation well"			NO COMMENTS RECEIVED	No response necessary.	
		5	Clarify definition for "Treating Plant"			NO COMMENTS RECEIVED	No response necessary.	
43-02-03-14	Access to sites and records	6	Add stratigraphic test wells and subsurface observation wells			NO COMMENTS RECEIVED	No response necessary.	The proposed amendment will be adopted without any further modification.
43-02-03-14.2	Oil and gas metering systems	7	Change inventory filing requirements to provers, other meters upon request	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC supports the change of focus from all meters to meter proving equipment used to test the accuracy of oil meters, better aligning with the regulatory goal of ensuring metering system accuracy.	No response necessary.	
		7, 8, 9, 11	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	The proposed amendments will be adopted without any further modification.
		8, 11	Acknowledge NorthSTAR form name "facility sundry notice"	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC supports removal of paper filing requirements; the NorthSTAR system allows for online submittal and NDPC commends the Commission in its goal to modernize the regulatory process.	No response necessary.	
		9	Add meter owner to test reports			NO COMMENTS RECEIVED	No response necessary.	
		10	Clarifies certificate of accuracy filings			NO COMMENTS RECEIVED	No response necessary.	
		10	Notification of prover testing			NO COMMENTS RECEIVED	No response necessary.	
		10	Clarifies reports for all custody transfer meters and provers			NO COMMENTS RECEIVED	No response necessary.	
43-02-03-15	Bond and transfer of wells	11, 12, 13, 14, 15, 16, 17	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	The proposed amendments will be adopted without any further modification.
		13	Clarify reclamation of impacted land and water resources transfers to new operator	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes "appurtenance" to a well is not clearly defined and may include more than what is directly associated with a transferred well, further explaining an indirectly associated appurtenance may belong to other operators and should not be the responsibility of the transferee to cover under its bond. NDPC requests a clearer definition for "appurtenance".	NDCC 38-08-04(1)(b)(7): the location and operation of wellhead and lease equipment, oil and gas separators, emulsion treaters, boilers, electric generators, flares, newly constructed underground gathering pipelines, flare mitigation systems, and all other equipment located at or on an oil or gas well site or underground gathering pipeline facility. Appurtenance does not need further definition.	The proposed amendments will be adopted without any further modification.
				10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC requests clarity on how "inadequacy of reclamation status" is to be defined and evaluated.	NDCC 38-08-04.5(2)(e): refers to "inadequate reclamation status"; AWPSRF moneys. Commission has always determined adequacy of reclamation status.	
		17	Establish Enhanced Oil Recovery Potential Well bond subject to annual review	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC is comfortable accepting bond requirements for such wells although it requests language be added making it clear the bond requirements replace other bond requirements throughout NDAC 43-02-03-15 and are not in addition to them.	Don't specify for unit bonds. What about wells in units? Should they remain on the unit bond?	The proposed amendment will be further modified to differentiate between non-unit and unit wells and what bond they are on.
				10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Blanket bond amounts must be increased; too low to ensure successful reclamation. Require bonds based upon engineering plans for full cost of reclamation following plugging and abandoning.	Bond amounts are adjusted periodically; not appropriate in this instance since EOR potential wells are compliant.	The proposed amendment will be adopted without any further modification.
43-02-03-16	Application for permit to drill and recomplate	18	Acknowledge NorthSTAR form name "application for permit" to drill or recomplate			NO COMMENTS RECEIVED	No response necessary.	The proposed amendment will be adopted without any further modification.
		18	Clarify what extenuating circumstances qualify for verbal approval consideration by director	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC acknowledges verbal approval from the director for wellsite preparation under extenuating circumstances is allowed in the current regulation and questions whether listing of examples is necessary but suggests "weather events" be added, providing flexibility for more rapid development.	List is not exhaustive, "include but not limited to". Have to be careful since the well permit is what gives them legal access pursuant to NDCC 38-11.1.	The proposed amendment will be adopted without any further modification.
		18, 19	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	The proposed amendments will be adopted without any further modification.
		19	Eliminate duplicative form			NO COMMENTS RECEIVED	No response necessary.	
43-02-03-16.3	Recovery of a risk penalty	20, 21, 22	Clarify language	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes the proposed amendment removes the requirement that an election to participate be in writing, creating uncertainty in the risk penalty process. Written elections to participate help establish a reliable record.	NDAC 43-02-03-16.3(1)(a): invitation to participate must be in writing (then includes required items/elements) NDAC 43-02-03-16.3(1)(b): we removed election to participate must be in writing. Move (1)(b) to (1)(a)(4). BOTH WELL AND UNIT AREAS.	The proposed amendment will be further modified to clarify election must be in writing.
				10/20/2023	Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC reiterates its concern that removing the requirement that an election to participate in well expenses and unit expenses be in writing may create unnecessary uncertainty in the risk penalty process, and requests the same written instrument requirements continue to be made of elections to participate.	See above.	See above.
43-02-03-17	Sign on well and facility	22	Add emergency phone number			NO COMMENTS RECEIVED	No response necessary.	The proposed amendment will be adopted without any further modification.
43-02-03-19.3	Earthen pits and open receptacles	23	Clarify form to be used			NO COMMENTS RECEIVED	No response necessary.	The proposed amendment will be adopted without any further modification.
		23, 24	Establish requirements for director approval of single-wall open top receptacles	10/9/2023	Oral + Written	Guy Aman-Continental Resources, Inc. The orders received by Continental had a long list of required items and Continental proposes they be included in the rule so operators desiring to use open top receptacles have the burden of demonstrating their ability to construct and utilize the facilities without causing damage to the environment through leaks and spills. The enactment of a rule eliminates the need for the Commission and operators to go through a time consuming and expensive hearing process. Suggested language provided.	Rule amendment was drafted based upon suggested language.	The proposed amendment will be adopted without any further modification.
43-02-03-20	Sealing off strata	25	Include all wells regulated			NO COMMENTS RECEIVED	No response necessary	
		25	Include all applicable strata penetrated			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		25	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-03-21	Casing, tubing, and cementing requirements	25	Include all wells regulated			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		25	Include all wells constructed			NO COMMENTS RECEIVED	No response necessary	
		25	Require cementing while drilling rig is on well but allows director discretion	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes cementing of surface casing only while the drilling rig is on the well is a step in the wrong direction. Modern drilling techniques and well control mitigation measures allow full compliance of surface casing cement rules without a rig on the well while cementing is occurring. Mud circulation can be verified prior to the rig moving off. Offline cementing will not be allowed if the director does not approve as "another method". Offline cementing offers significant increase in efficiency and improving drilling sequencing activities. NDPC requests the Commission seriously consider the benefits of offline cementing and reconsider.	Commission staff have experienced strong water flows from surface casing holes requiring heavy mud to kill; no rig means lack of well control. May need to reciprocate pipe. Protecting freshwater is highest priority.	The proposed amendment will be adopted without any further modification.
				10/20/2023	Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes the flexibility to utilize offline cementing techniques to be significantly beneficial to the process of drilling a well; and strongly believes requiring a drilling rig to be on the well during cementing operations is an unnecessary and restrictive standard and requests the proposed rule be withdrawn.	See above.	See above.
		25	Require surface casing gauge on all wells			NO COMMENTS RECEIVED	No response necessary	
		26	Require monitoring of surface casing pressure, keep below FIT			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		26	Clarify pressure tests of casing strings			NO COMMENTS RECEIVED	No response necessary	
43-02-03-24	Pulling string of casing	27	Include all wells regulated			NO COMMENTS RECEIVED	No response necessary	The proposed amendment will be adopted without any further modification.
43-02-03-27.1	Hydraulic fracture stimulation	27, 28, 29	Remove intermediate casing reference			NO COMMENTS RECEIVED	No response necessary	
		27, 28	Require remedial well work prior to performance with director discretion			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		27	Remove casing evaluation for re-frac through frac string wells			NO COMMENTS RECEIVED	No response necessary	
		27, 29	Require notice if suspected frac string or casing failure			NO COMMENTS RECEIVED	No response necessary	
		27	Change adequate to adequately			NO COMMENTS RECEIVED	No response necessary	
43-02-03-28	Safety regulation	30	Clarify what type of tank or vessel must be 150 feet from ignition source	10/20/2023	Written	Russel Hollingworth-Facilities Engineering & Construction Manager, Marathon Oil Company The standard referenced is for tanks designed for 8 ounces or less. Given the various ratings of tanks with different respective codes and operators using a range such as 16 ounces and 40 ounces, Marathon suggests this be removed or changed to reference a tank that is not a pressure vessel.	Agree rule amendment should be modified.	The proposed amendment will be further modified to clarify what tanks are subject to rule.
		30	High pressure oil processing vessels allowed 65 feet from ignition source with director approval	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC supports the proposal but, in accordance with the Center for Chemical Process Safety guidance for facility siting and layout, proposes the distance be set at fifty feet. Additionally, NDPC requests clarity on how the measurement from oil processing vessel to a well or oil tank should be made, suggesting a horizontal distance from closest edge to closest edge, for a treater this would be from vessel edge to flame arrestor or burner air inlet edge.	Agree distance should be set at fifty feet. Could add "measured from closest edge to flame arrestor or burner air inlet edge".	The proposed amendment will be further modified to fifty feet and an explanation it is the horizontal distance from closest edge to flame arrestor or air inlet edge.
		30	High pressure oil processing vessels allowed 65 feet from ignition source with director approval	10/20/2023	Written	Russel Hollingworth-Facilities Engineering & Construction Manager, Marathon Oil Company Marathon supports rule revision that reflects current industry operations while maintaining safe operations, providing clarity of definitions of oil tanks and oil processing vessels. To optimize the facility footprint minimizing impact to landowners and enabling optimal capital efficiency, Marathon requests the 65 feet proposed be adjusted to 50 feet where a pressure vessel is performing the same/similar function as a tank. Marathon believes the 50 feet spacing is in line with industry safety guidelines, namely the Center for Chemical Process Safety (CCPS) Guidelines for Facility Siting and Layout. Pressure vessel operates above 15 psi. Marathon requests additional clarity how this measurement should be made, suggesting horizontally from closest edge to closest edge; from a treater this would be from vessel edge to flame arrestor or burner air inlet edge.	Agree distance should be set at fifty feet. Could add "measured from closest edge to flame arrestor or burner air inlet edge". Should reference to ASME be changed to CCPS Guidelines?	See above.
		30	Prohibit surface casing bleed lines plumbed into production line without director approval	10/20/2023	Written	Jason Nolingberg-General counsel Kraken Resources Generally support but want to make sure intent was clearly stated and not ambiguous as it relates to placement of all items covered by ASME Section VIII (not just the more general oil tanks as previously drafted).	Does apply to all items covered by ASME Section VIII.	The proposed amendment will be adopted without any further modification.
		30	Prohibit surface casing bleed lines plumbed into production line without director approval			NO COMMENTS RECEIVED	No response necessary	The proposed amendment will be adopted without any further modification.
43-02-03-29	Well and lease equipment and gas gathering pipelines	31, 32	Correct Esri acronym			NO COMMENTS RECEIVED	No response necessary	The proposed amendment will be adopted without any further modification.
		32	Require above ground pipeline markers at discretion of director for public safety	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes current permanent above ground pipeline marker placement and maintenance practices are adequate to protect public health and safety. Members currently place markers based on line-of-sight, landowner requirements, and locations that clearly necessitate markers for safety purposes. Color coded markers with product and contact information are routinely utilized at road, fence, and tree line crossings. The proposed language does not provide additional frequency or specify areas where they should be placed. If the Commission adds the requirement, NDPC requests clarity on "discretion of the director when necessary to protect public health and safety". Implementation could impact landowner relations, project costs, and schedules. If insufficient markers are being placed, NDPC suggests justification be shown instead of creating uncertainty. In oral comment, Brady suggested if there are other points where markers are necessary, they be spelled out.	Commission agrees placement and maintenance practices are adequate in most cases; however, when they are not there is no rule allowing the director to require.	The proposed amendment will be further modified to still allow placement at director discretion but add some marker signage requirements.
43-02-03-29.1	Crude oil and produced water underground gathering pipelines	33, 34, 36, 37, 38, 39, 40	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	The proposed amendments will be adopted without any further modification.
		33	Notice of intent to construct expires after one year for any project not built			NO COMMENTS RECEIVED	No response necessary	
		33, 37, 40, 41, 42	Add GCS and Esri acronyms			NO COMMENTS RECEIVED	No response necessary	
		36	Require ROW reclamation to be completed within 180 days with director discretion	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes 180 days is unreasonable timeframe. Example: if construction completes Oct 1 and snowfall starts, reclamation completion required by March 29 with ground likely frozen and snow covered. Example: MHA Nation-need one month to bid and award Tribal contractor for reseeding; one month to complete reclamation work; potential weather and contractor delays make it difficult to meet 180 days. Complete reclamation includes reseeding, touching up, redressing, and other steps take significantly longer than six months. NDPC recommends one year to accommodate proper ROW reclamation processes and expected and unexpected complications.	Agree should be one year.	The proposed amendment will be further modified to one year.
		36	Require third-party inspector for all aspects of construction	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC has significant concerns and believes the language is broad and poorly defined and will have a dramatic impact on construction costs and staffing availability, indicating there is a shortage of qualified inspection personnel in ND creating a larger problem if operators are staffing up to satisfy the unclear parameters.	Agree language is too broad and is adequately covered in current rule.	The proposed amendment will be withdrawn.
		36	Require third-party inspector for all aspects of construction	10/20/2023	Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes "during all aspects of construction" is unnecessarily broad and current requirements are adequate as long as enforced. The purpose of requiring third-party inspectors is to ensure the pipeline is installed as prescribed by manufacturer specifications and in accordance with this section. As long as this purpose is being met, as NDPC believes it is, there is no need for requiring third-party inspectors during specific times of the pipeline construction and installation process.	See above.	See above.
		37	Require adequate number of third-party inspectors	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes staffing and construction cost consequences exist with the proposed addition and questions the necessity of introducing additional uncertainty into the process by potentially allowing an undefined number of inspectors to be required during all aspects of construction. NDPC is unaware of instances that would justify such broad discretionary overreach and believes the current rule is adequate and recommends withdrawal to remain consistent with reducing red tape in state government. Members are competent in staffing projects and determining the level of third-party inspectors to adequately ensure sound and reliable pipeline installation.	Commission staff have experienced several instances where construction had to be stopped because no third-party inspector present during simultaneous operations or were on another project. Have been told feel apprehensive signing certificate.	The proposed amendment will be adopted with minor modification to remove superfluous language.
		38	Establish accuracy of GIS layer	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC seeks clarification on the application, questioning if it would be applied retroactively.	Will not be applied retroactively.	The proposed amendments will be adopted without any further modification.
		39	Require filing of data sharing plan with director			NO COMMENTS RECEIVED	No response necessary	
		40	Require appropriately scaled chart recorder			NO COMMENTS RECEIVED	No response necessary	

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-03-29.1	Crude oil and produced water underground gathering pipelines	43	Require above ground pipeline markers at discretion of director for public safety	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC believes current permanent above ground pipeline marker placement and maintenance practices are adequate to protect public health and safety. Members currently place markers based on line-of-sight, landowner requirements, and locations that clearly necessitate markers for safety purposes. Color coded markers with product and contact information are routinely utilized at road, fence, and tree line crossings. The proposed language does not provide additional frequency or specify areas where they should be placed. If the Commission adds the requirement, NDPC requests clarity on "discretion of the director when necessary to protect public health and safety". Implementation could impact landowner relations, project costs, and schedules. If insufficient markers are being placed, NDPC suggests justification be shown instead of creating uncertainty. In oral comment, Brady suggested if there are other points where markers are necessary, they be spelled out.	Commission agrees placement and maintenance practices are adequate in most cases; however, when they are not there is no rule allowing the director to require.	The proposed amendment will be further modified to still allow placement at director discretion but add some marker signage requirements.
43-02-03-31	Well log, completion, and workover reports	43	Clarify role of director and commission	10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association Moves more authority from commission to director resulting in reduced transparency and public notice.	Codifying practical role of director vs commission.	The proposed amendments will be adopted without any further modification.
		43	Specify cement evaluation log			NO COMMENTS RECEIVED	No response necessary	
		43	Require initial cement evaluation log run at zero pressure	10/20/2023	Written	Erik Borchardt-Schlumberger Cement evaluation using sonic or ultrasonic measurements need liquid in the well bore to operate as well as minor pressure to ensure data quality. Recommend cement evaluation log be allowed to be recorded under a small amount of surface induced pressure when the logging tool is near surface and hydrostatic pressure is insufficient; maximum allowed pressure is 500 psi and only when the tool is within 500 feet of wellhead.	Commission agrees there are instances where applied pressure is required for tool to function properly.	The proposed amendment will be further modified to allow appropriate pressure to be applied.
		43	Change time to date			NO COMMENTS RECEIVED	No response necessary	
		44	Add restimulation wells to confidentiality list			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		44	Change confidentiality for recompletion, restimulation, reentry well to mimic new wells			NO COMMENTS RECEIVED	No response necessary	
43-02-03-34.1	Reclamation of surface	44	Acknowledge NorthSTAR form name "well sundry form"			NO COMMENTS RECEIVED	No response necessary	
		45	Acknowledge NorthSTAR from name "well sundry form"			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-35	Conversion of mineral wells to freshwater wells	46	Acknowledge change from Water Commission to Department of Water Resources			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-41	Subsurface pressure tests	46	Change datum to top of formation			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-44	Metered casinghead gas	47	Require notification of director within 30 days of connection to gas gathering system			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		47	May estimate or measure gas used on lease or flared			NO COMMENTS RECEIVED	No response necessary	
		47	Suggest meters used to determine used on lease or flared gas conform to standards			NO COMMENTS RECEIVED	No response necessary	
43-02-03-48.1	Central production facility-commingling of production	48	Clarify commingling of production means oil and gas			NO COMMENTS RECEIVED	No response necessary	
		48	Clarify commingling applies to oil, gas, or both			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		48	List all allocation meters and type			NO COMMENTS RECEIVED	No response necessary	
		48	Acknowledge NorthSTAR form name "central tank battery well test"			NO COMMENTS RECEIVED	No response necessary	
		49	Allow director to approve commingling of produced water	10/10/2023	Oral	Tori Siemieniowski-Grayson Mill Energy Rule amendment requires procedures to be performed monthly, however typically for common ownership facilities the Commission has allowed quarterly instead of monthly.	Add new 4(c): An affidavit executed by a person who has knowledge indicating that common ownership as defined above exists; or an indication that it is not common ownership. Change to: "Such procedures or method shall be performed quarterly for common ownership and monthly for diverse ownership central production facilities.	The proposed amendment will be further modified to allow quarterly tests for common ownership facilities.
		48, 49	Acknowledge NorthSTAR form name "facility sundry notice"			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-51.1	Treating plant permit requirements	51	Director can extend permit			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-51.3	Treating plant construction and operation requirements	52	Allow director to waive synthetic liner requirement			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-03-53.1	Saltwater handling facilities permit requirements	53	Acknowledge NorthSTAR form name "facility sundry notice"			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
		54	Director can extend permit			NO COMMENTS RECEIVED	No response necessary	
43-02-03-55	Abandonment of wells, treating plants, underground gathering pipelines, or saltwater handling facilities-suspension of drilling	54	Abandonment of subsurface monitoring wells added	10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC appreciates the clarity sought but believes these wells should be eligible for TA status given the potential long-term utility for future Class VI and other injection wells.	Wells would not be constructed to Class VI standards. Monitoring well installed for specific purpose; small number and plenty of other wells.	
		55	Clarify surface owner may request a hearing to review temporarily abandoned status			NO COMMENTS RECEIVED	No response necessary	
		55	Clarify temporarily abandoned status is for oil and gas wells			NO COMMENTS RECEIVED	No response necessary	
				10/9/2023	Oral + Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC supports as it will allow both legacy and unconventional wells to remain unplugged and available for EOR in the future. This preserves well bores subject to tremendous investment by industry while awaiting the availability of miscible fluids like CO2 to allow EOR to enter the commercial stage. Development of infrastructure will take time and allowing these wells to remain in non-production status is critical. Industry and ND stand to gain a great deal as well as the landowners where these wells are located. Will allow a higher production level without the need to construct a new well facility or drill new wells, minimizing the surface impacts of EOR development.	Commission believes different criteria are appropriate since the well can remain in EOR potential status for twelve years before surface owner review hearing.	
				10/20/2023	Written	Brady Pelton-NDPC-Vice President and General Counsel NDPC refers to comments submitted by Kyle Gardner with Cobra Oil & Gas Corp. that describe how reservoir depressurization is used as an enhanced oil recovery technique.	Depressurization is not a recognized method of enhanced recovery under NDCC 57-51.1.	The proposed amendments will be adopted without any further modification.
				10/20/2023	Written	Kyle Gardner-VP Engineering, Cobra Oil & Gas Corporation Supports NDPC modifications and criteria reflecting those currently for temporarily abandoned wells. The proposed surface casing depth criteria alienates older wells that had shallower setting depths than the Fox Hills Formation. Cobra produces hundreds of wells with mechanical integrity that have surface casing set through glacial till hundreds of feet above the Fox Hills Formation. EOR potential is more than injection of CO2. Cobra exploits depressurization as an EOR method that can yield the same effect as CO2 without needing to inject CO2, currently employing such method in Renville County where the surface casing depths would not meet the Fox Hills Formation criteria. Cobra was awarded a research grant from the Oil & Gas Research Council to conduct an extensive study with EERC regarding the EOR depressurization potential of the Mission Canyon Formation in Renville County where none of the wells meet the Fox Hills Formation criteria. Cobra acknowledges surface casing depths are important to protect shallow formations and water tables but the required setting depth has deepened over time, with many older wells having much shallower surface casing depths than now required. Cobra believes mechanical integrity should be the standard instead of specific well configuration. Cobra requests the NDPC modified language be considered.	Depressurization is not a recognized method of enhanced recovery under NDCC 57-51.1.	
		10/20/2023	Written	Troy Coons-Chairman, Northwest Landowners Association The language added is offensive and will lead to litigation. The Commission cannot authorize abandoned wells to sit on private property under the guise of "enhanced oil recovery status". At some point they are abandoned as a matter of common law or contract law. The status is clearly intended to allow operators in the Bakken to put thousands of wells in a status that allows them to leave wells idle for years. Not being able to request a hearing but once every twelve years is a slap in the face to farmers and ranchers, forcing them to use the courts to vindicate their rights and protect their private property. To the extent operators attempt to rely on permits and authorizations from the Commission to defend against actions by landowners, the Commission will inevitably be pulled into litigation surrounding the increasing number of wells being abandoned and orphaned.	NDCC 38-08-04(1)(a)(12) amended pursuant to HB 1272. Hearing after at least twelve years is in statute. Subsequent hearing can be requested every two years.			

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
NDAC CITE	RULE	PG	PROPOSED CHANGE	DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-08 STRIPPER WELL AND STRIPPER WELL PROPERTY DETERMINATION								
43-02-08-01	Definitions	57	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-08-02	Application for stripper well or stripper property determination	58	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	
43-02-08-02.1	Property determination	59	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	
43-02-08-03	Director shall determine stripper well or stripper property status	60	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	
43-02-08-04	Applicant adversely affected may submit amended application-procedure	61	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	
43-02-08-05	Person adversely affected may petition the commission-procedure	61	Correct General Authority and Law Implemented cites			NO COMMENTS RECEIVED	No response necessary	

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-10 CERTIFICATION OF SECONDARY AND TERTIARY RECOVERY PROJECTS-DETERMINATION OF INCREMENTAL PRODUCTION								
43-02-10-02	Application to certify a qualifying secondary recovery project	62	Remove tax reduction reference			NO COMMENTS RECEIVED	No response necessary	The proposed amendments will be adopted without any further modification.
43-02-10-03	Commission certification of a secondary recovery project	62	Remove tax reduction paragraph			NO COMMENTS RECEIVED	No response necessary	
43-02-10-04	Application to certify a qualifying tertiary recovery project	63	Remove tax reduction reference			NO COMMENTS RECEIVED	No response necessary	
43-02-10-05	Commission certification of a tertiary recovery project	63	Correct subsection reference to 57-51.1; remove tax reduction reference			NO COMMENTS RECEIVED	No response necessary	

NDAC CITE	RULE	PG	PROPOSED CHANGE	COMMENTS RECEIVED				
				DATE RECEIVED	ORAL OR WRITTEN	COMMENT	DISCUSSION	ACTION TAKEN
43-02-15 CERTIFICATION OF RESTIMULATION WELLS (CREATED PURSUANT TO HB 1427) Promulgation of new administrative rules								
43-02-15-01	Definitions	64	Create definitions, same as used in NDAC 43-02-03, NDCC 38-08, NDCC 57-51.1			NO COMMENTS RECEIVED	No response necessary	The proposed rules will be adopted without any further modification.
43-02-15-02	Application to certify a restimulation well	64, 65	Create requirements for application to certify			NO COMMENTS RECEIVED	No response necessary	
43-02-15-03	Director shall determine restimulation well status	65, 66	Create requirements for director to review within 30 days; MER; director grant or deny application and send to applicant; send approval to tax commissioner			NO COMMENTS RECEIVED	No response necessary	
43-02-15-04	Applicant adversely affected may submit amended application	66	Applicant may amend application within 30 days; director grant or deny			NO COMMENTS RECEIVED	No response necessary	
43-02-15-05	Person adversely affected may petition the commission-procedure	66, 67	Any person adversely affected may petition the commission within 30 days			NO COMMENTS RECEIVED	No response necessary	
43-02-15-06	Books and records to be kept to substantiate reports	67	Operator must keep records for six years			NO COMMENTS RECEIVED	No response necessary	

APPENDIX TO THE COMMISSION ORDER NO. 32941

NORTH DAKOTA INDUSTRIAL COMMISSION

RULES AND REGULATIONS – NORTH DAKOTA ADMINISTRATIVE CODE

2024 RULES CHANGES

RULES AND REGULATIONS

NORTH DAKOTA ADMINISTRATIVE CODE

CHAPTER 43-02-03 (OIL AND GAS CONSERVATION)

CHAPTER 43-02-08 (STIPPER WELL AND STRIPPER WELL PROPERTY DETERMINATION)

CHAPTER 43-02-10 (CERTIFICATION OF SECONDARY AND TERTIARY RECOVERY PROJECT – DETERMINATION OF INCREMENTAL PRODUCTION)

CHAPTER 43-02-15 (CERTIFICATION OF RESTIMULATION WELLS)

OIL AND GAS CONSERVATION

CHAPTER 43-02-03

43-02-03-01. Definitions.

The terms used throughout this chapter have the same meaning as in North Dakota Century Code chapter 38-08 except:

1. "Adjusted allowable" means the allowable production a proration unit receives after all adjustments are applied.
2. "Allocated pool" is one in which the total oil or natural gas production is restricted and allocated to various proration units therein in accordance with proration schedules.
3. "Allowable production" means that number of barrels of oil or cubic feet of natural gas authorized to be produced from the respective proration units in an allocated pool.
4. "Barrel" means forty-two United States gallons [158.99 liters] measured at sixty degrees Fahrenheit [15.56 degrees Celsius] and fourteen and seventy-three hundredths pounds per square inch absolute [1034.19 grams per square centimeter].
5. "Barrel of oil" means forty-two United States gallons [158.99 liters] of oil after deductions for the full amount of basic sediment, water, and other impurities present, ascertained by centrifugal or other recognized and customary test.
6. "Bottom hole or subsurface pressure" means the pressure in pounds per square inch gauge under conditions existing at or near the producing horizon.

7. "Bradenhead gas well" means any well capable of producing gas through wellhead connections from a gas reservoir which has been successfully cased off from an underlying oil or gas reservoir.
8. "Casinghead gas" means any gas or vapor, or both gas and vapor, indigenous to and produced from a pool classified as an oil pool by the commission.
9. "Certified or registered mail" means any form of service by the United States postal service, federal express, Pitney Bowes, and any other commercial, nationwide delivery service that provides the mailer with a document showing the date of delivery or refusal to accept delivery.
10. "Commercial injection well" means one that only receives fluids produced from wells operated by a person other than the principal on the bond.
11. "Common purchaser for natural gas" means any person now or hereafter engaged in purchasing, from one or more producers, gas produced from gas wells within each common source of supply from which it purchases, for processing or resale.
12. "Common purchaser for oil" means every person now engaged or hereafter engaging in the business of purchasing oil in this state.
13. "Common source of supply" is synonymous with pool and is a common accumulation of oil or gas, or both, as defined by commission orders.
14. "Completion" means an oil well shall be considered completed when the first oil is produced through wellhead equipment into tanks from the ultimate producing interval after casing has been run. A gas well shall be considered complete when the well is capable of producing gas through wellhead equipment from the ultimate producing zone after casing has been run. A dry hole shall be considered complete when all provisions of plugging are complied with as set out in this chapter.
15. "Condensate" means the liquid hydrocarbons recovered at the surface that result from condensation due to reduced pressure or temperature of petroleum hydrocarbons existing in a gaseous phase in the reservoir.
16. "Cubic foot of gas" means that volume of gas contained in one cubic foot [28.32 liters] of space and computed at a pressure of fourteen and seventy-three hundredths pounds per square inch absolute [1034.19 grams per square centimeter] at a base temperature of sixty degrees Fahrenheit [15.56 degrees Celsius].
17. "Director" means the director of oil and gas of the industrial commission, the assistant director of oil and gas of the industrial commission, and their designated representatives.
18. "Enhanced recovery" means the increased recovery from a pool achieved by artificial means or by the application of energy extrinsic to the pool, which artificial means or application includes pressuring, cycling, pressure maintenance, or injection to the pool of a substance or form of energy but does not include the injection in a well of a

substance or form of energy for the sole purpose of:

- a. Aiding in the lifting of fluids in the well; or
 - b. Stimulation of the reservoir at or near the well by mechanical, chemical, thermal, or explosive means.
19. "Exception well location" means a location which does not conform to the general spacing requirements established by the rules or orders of the commission but which has been specifically approved by the commission.
 20. "Flow line" means a pipe or conduit of pipes used for the transportation, gathering, or conduct of a mineral from a wellhead to a separator, treater, dehydrator, tank battery, or surface reservoir.
 21. "Gas lift" means any method of lifting liquid to the surface by injecting gas into a well from which oil production is obtained.
 22. "Gas-oil ratio" means the ratio of the gas produced in cubic feet to a barrel of oil concurrently produced during any stated period.
 23. "Gas-oil ratio adjustment" means the reduction in allowable of a high gas-oil ratio proration unit to conform with the production permitted by the limiting gas-oil ratio for the particular pool during a particular proration period.
 24. "Gas transportation facility" means a pipeline in operation serving one or more gas wells for the transportation of natural gas, or some other device or equipment in like operation whereby natural gas produced from gas wells connected therewith can be transported.
 25. "Gas well" means a well producing gas or natural gas from a common source of gas supply as determined by the commission.
 26. "High gas-oil ratio proration unit" means a proration unit with a producing oil well with a gas-oil ratio in excess of the limiting gas-oil ratio for the pool.
 - ~~26.~~27. "Inactive pipeline" means any underground gathering pipeline system or portion thereof that has not transported fluid for more than one year.
 - ~~27.~~28. "Injection or input well" means any well used for the injection of air, gas, water, or other fluids into any underground stratum.
 - ~~28.~~29. "Injection pipeline" means a pipe or conduit of pipes used for the transportation of fluids, typically via an injection pump, from a storage tank or tank battery directly to an injection well.
 - ~~29.~~30. "Limiting gas-oil ratio" means the gas-oil ratio assigned by the commission to a particular oil pool to limit the volumes of casinghead gas which may be produced from the various oil-producing units within that particular pool.

- ~~30~~31. "Log or well log" means a systematic, detailed, and correct record of formations encountered in the drilling of a well, including commercial electric logs, radioactive logs, dip meter logs, and other related logs.
- ~~31~~32. "Multiple completion" means the completion of any well so as to permit the production from more than one common source of supply.
- ~~32~~33. "Natural gas or gas" means and includes all natural gas and all other fluid hydrocarbons not herein defined as oil.
- ~~33~~34. "Occupied dwelling" or "permanently occupied dwelling" means a residence which is lived in by a person at least six months throughout a calendar year.
- ~~34~~35. "Official gas-oil ratio test" means the periodic gas-oil ratio test made by order of the commission and by such method and means and in such manner as prescribed by the commission.
- ~~35~~36. "Offset" means a well drilled on a forty-acre [16.19-hectare] tract cornering or contiguous to a forty-acre [16.19-hectare] tract having an existing oil well, or a well drilled on a one hundred sixty-acre [64.75-hectare] tract cornering or contiguous to a one hundred sixty-acre [64.75-hectare] tract having an existing gas well; provided, however, that for wells subject to a fieldwide spacing order, "offset" means any wells located on spacing units cornering or contiguous to the spacing unit or well which is the subject of an inquiry or a hearing.
- ~~36~~37. "Oil well" means any well capable of producing oil or oil and casinghead gas from a common source of supply as determined by the commission.
- ~~37~~38. "Operator" is the principal on the bond covering a well and such person shall be responsible for drilling, completion, and operation of the well, including plugging and reclamation of the well site.
- ~~38~~39. "Overage or overproduction" means the amount of oil or the amount of natural gas produced during a proration period in excess of the amount authorized on the proration schedule.
- ~~39~~40. "Potential" means the properly determined capacity of a well to produce oil, or gas, or both, under conditions prescribed by the commission.
- ~~40~~41. "Pressure maintenance" means the injection of gas or other fluid into a reservoir, either to increase or maintain the existing pressure in such reservoir or to retard the natural decline in the reservoir pressure.
- ~~41~~42. "Proration day" consists of twenty-four consecutive hours which shall begin at seven a.m. and end at seven a.m. on the following day.
- ~~42~~43. "Proration month" means the calendar month which shall begin at seven a.m. on the first day of such month and end at seven a.m. on the first day of the next succeeding month.

43.44. "Proration schedule" means the periodic order of the commission authorizing the production, purchase, and transportation of oil or of natural gas from the various units of oil or of natural gas proration in allocated pools.

44.45. "Proration unit for gas" consists of such geographical area as may be prescribed by special pool rules issued by the commission.

45.46. "Recomplete" means the subsequent completion of a well in a different pool.

46.47. "Reservoir" means pool or common source of supply.

47.48. "Saltwater handling facility" means and includes any container and site used for the handling, storage, disposal of substances obtained, or used, in connection with oil and gas exploration, development, and production and can be a stand-alone site or an appurtenance to a well or treating plant.

48.49. "Shut-in pressure" means the pressure noted at the wellhead when the well is completely shut in, not to be confused with bottom hole pressure.

49.50. "Spacing unit" is the area in each pool which is assigned to a well for drilling, producing, and proration purposes in accordance with the commission's rules or orders.

51. "Stratigraphic test well" means any well or hole, except a seismograph shot hole, drilled for the purpose of gathering information ~~in connection with the oil and gas industry~~ with no intent to produce oil or gas from or inject into such well.

~~50.52.~~ "Subsurface observation well" means a well used to observe subsurface phenomena, including the presence of carbon dioxide, pressure fluctuations, fluid levels and flow, temperature, and in situ water chemistry.

51.53. "Tank bottoms" means that accumulation of hydrocarbon material and other substances which settle naturally below crude oil in tanks and receptacles that are used in handling and storing of crude oil, and which accumulation contains basic sediment and water in an amount rendering it unsalable to an ordinary crude oil purchaser; provided, that with respect to lease production and for lease storage tanks, a tank bottom shall be limited to that volume of the tank in which it is contained that lies below the bottom of the pipeline outlet thereto.

52.54. "Treating plant" means any plant permanently constructed or portable used for the purpose of wholly or partially reclaiming, treating, processing, or recycling tank bottoms, waste oils, drilling mud, waste from drilling operations, produced water, and other wastes related to crude oil and natural gas exploration and production. This is not to be construed as to include saltwater handling and disposal operations which typically recover skim oil and solids from their operations, treating mud or cuttings at a well site during drilling operations, treating flowback water during completion operations at a well site, or treating tank bottoms at the well site or facility where they originated.

History: Amended effective January 1, 1983; May 1, 1992; July 1, 1996; December 1, 1996; September 1, 2000; July 1, 2002; January 1, 2008; April 1, 2014; October 1, 2016; April 1, 2018;

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-14. Access to sites and records.

The commission, director, and their representatives shall have access to all records wherever located. All owners, operators, drilling contractors, drillers, service companies, or other persons engaged in drilling, completing, producing, operation, or servicing oil and gas wells, pipelines, injection wells, stratigraphic test wells, subsurface observation wells, or treating plants shall permit the commission, director, and their representatives to come upon any lease, property, pipeline right-of-way, well, or drilling rig operated or controlled by them, complying with state safety rules, and to inspect the records and operation, and to have access at all times to any and all records. If requested, copies of such records must be filed with the commission. The confidentiality of any data submitted which is confidential pursuant to subdivision f of subsection 1 of North Dakota Century Code section 38-08-04 and section 43-02-03-31 must be maintained.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; May 1, 1994; April 1, 2014; October 1, 2016; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-14.2. Oil and gas metering systems.

1. **Application of section.** This section is applicable to all allocation and custody transfer metering stations measuring production from oil and gas wells within the state of North Dakota, including private, state, and federal wells. If these rules differ from federal requirements on measurement of production from federal oil and gas wells, the federal rules take precedence.
2. **Definitions.** As used in this section:
 - a. "Allocation meter" means a meter used by the producer to determine the volume from an individual well before it is commingled with production from one or more other wells prior to the custody transfer point.
 - b. "Calibration test" means the process or procedure of adjusting an instrument, such as a gas meter, so its indication or registration is in satisfactorily close agreement with a reference standard.
 - c. "Custody transfer meter" means a meter used to transfer oil or gas from the producer to transporter or purchaser.
 - d. "Gas gathering meter" means a meter used in the custody transfer of gas into a gathering system.
 - e. "Meter factor" means a number obtained by dividing the net volume of fluid (liquid or gaseous) passed through the meter during proving by the net volume registered by the meter.

f. "Metering proving" means the procedure required to determine the relationship between the true volume of a fluid (liquid or gaseous) measured by a meter and the volume indicated by the meter.

3. **Inventory filing requirements.** The owner of ~~metering-meter proving~~ equipment shall file with the ~~commission-director~~ an inventory of all ~~meters used for custody transfer and allocation of production from oil or gas wells, or both~~ conventional pipe provers or master-meter provers used to test the accuracy of oil meters. Inventories must be updated on an annual basis, and filed with the ~~commission-director~~ on or before the first day of each year, or they may be updated as frequently as monthly, at the discretion of the operator. Inventories must include the following:

a. ~~Well name and legal description of location or meter location if different.~~

b. ~~North Dakota industrial commission well file number.~~

e.a. Meter information:

(1) ~~Gas meters~~ Prover:

(a) ~~Make and model~~ Type.

(b) ~~Differential, static, and temperature range~~ Serial number.

(c) ~~Orifice tube size (diameter)~~ Prover volume.

(d) ~~Meter station number~~ Most recent water draw certificate.

(e) ~~Serial number.~~

(2) ~~Oil~~ Master meters:

(a) Make and model.

(b) Size.

(c) ~~Meter station number.~~

(c) Serial number.

(d) Master meter factor.

(e) Most recent meter proving certificate.

(3) An inventory of all meters used for custody transfer and allocation of production from oil and gas wells, or both shall be filed with the director upon request.

4. **Installation and removal of meters.** The ~~commission-director~~ must be notified of all custody transfer meters placed in service. The owner of the custody transfer equipment shall notify the ~~commission-director~~ of the date a meter is placed in service, the make and model of the meter, and the meter or station number. The ~~commission-director~~ must

also be notified of all metering installations removed from service. The notice must include the date the meter is removed from service, the serial number, and the meter or station number. The required notices must be filed with the ~~commission~~ director within thirty days of the installation or removal of a meter.

All allocation meters must be approved prior to installation and use. The application for approval must be on a facility sundry notice (~~form 4 or form provided by the commission~~) and shall include the make and model number of the meter, the meter or station number, the serial number, the well name, its location, and the date the meter will be placed in service.

Meter installations for measuring production from oil or gas wells, or both, must be constructed to American petroleum institute or American gas association standards or to meter manufacturer's recommended installation. Meter installations constructed in accordance with American petroleum institute or American gas association standards in effect at the time of installation shall not automatically be required to retrofit if standards are revised. The ~~commission~~ director will review any revised standards, and when deemed necessary will amend the requirements accordingly.

5. **Registration of persons proving or testing meters.** All persons engaged in meter proving or testing of oil and gas meters must be registered with the ~~commission~~ director. Those persons involved in oil meter testing, by flowing fluid through the meter into a test tank and then gauging the tank, are exempted from the registration process. However, such persons must notify the ~~commission~~ director prior to commencement of the test to allow a representative of the ~~commission~~ director to witness the testing process. A report of the results of such test shall be filed with the commission within thirty days after the test is completed. Registration must include the following:
- a. Name and address of company.
 - b. Name and address of measurement personnel.
 - c. Qualifications, listing experience or specific training.

Any meter tests performed by a person not registered with the ~~commission~~ director will not be accepted as a valid test.

6. **Calibration requirements.** Oil and gas metering equipment must be proved or tested to American petroleum institute or American gas association standards or to the meter manufacturer's recommended procedure to establish a meter factor or to ensure measurement accuracy. The owner of a custody transfer meter or allocation meter shall notify the ~~commission~~ director at least ten days prior to the testing of any meter.
- a. Oil allocation meter factors shall be maintained within two percent of original meter factor. If the factor change between provings or tests is greater than two percent, meter use must be discontinued until successfully reproven after being repaired or replaced.

- b. Oil custody transfer meter factors must be maintained within one-quarter of one percent of the previous meter factor. If the factor change between provings or tests is greater than one-quarter of one percent, meter use must be discontinued until successfully reprovven after being repaired or replaced.
- c. Copies of all oil allocation meter test procedures are to be filed with and reviewed by the ~~commission~~ director to ensure measurement accuracy.
- d. All gas meters must be tested with a minimum of a three-point test for static and differential pressure elements and a two-point test for temperature elements. The test reports must include an as-found and as-left test and a detailed report of changes.
- e. Test reports must include the following:
 - (1) Company name of test contractor.
 - (2) Pipeline company name.
 - (3) Meter owner name.
 - ~~(4)~~(4) Producer name.
 - ~~(5)~~(5) Well or Central Tank Battery (CTB) name.
 - ~~(6)~~(6) Well file number or Central Tank Battery (CTB) number.
 - ~~(4)~~ ~~Pipeline company or company name of test contractor.~~
 - ~~(5)~~(7) Test personnel's name.
 - ~~(6)~~(8) Station or meter number.
- f. Unless required more often by the director, minimum frequency of meter proving or calibration tests are as follows:
 - (1) Oil meters used for custody transfer shall be proved monthly for all measured volumes which exceed two thousand barrels per month. For volumes two thousand barrels or less per month, meters shall be proved at each two thousand barrel interval or more frequently at the discretion of the operator.
 - (2) Quarterly for oil meters used for allocation of production in a diverse ownership central production facility. Semiannually for oil meters used for allocation of production in a common ownership central production facility.
 - (3) Semiannually for gas meters used for allocation of production in a diverse ownership central production facility. Annually for gas meters used for allocation of production in a common ownership central production facility.
 - (4) Semiannually for gas meters in gas gathering systems.

- (5) For meters measuring more than one hundred thousand cubic feet [2831.68 cubic meters] per day on a monthly basis, orifice plates shall be inspected semiannually, and meter tubes shall be inspected at least every five years to ensure continued conformance with the American gas association meter tube specifications.
- (6) For meters measuring one hundred thousand cubic feet [2831.68 cubic meters] per day or less on a monthly basis, orifice plates shall be inspected annually.

g. Accuracy of all equipment used to test oil or gas meters must be traceable to the standards of the national institute of standards and technology. The equipment must be certified as accurate either by the manufacturer or an independent testing facility. The certificates of accuracy for all equipment used to test gas meters must be made available upon request. The owner of a conventional pipe prover or master meter prover shall notify the director at least ten days prior to the testing of any prover. Certification of the equipment must be updated as follows:

- (1) Annually for all equipment used to test the pressure and differential pressure elements.
- (2) Annually for all equipment used to determine temperature.
- (3) Biennially for all conventional pipe provers.
- (4) Annually for all master meters.
- (5) Five years for equipment used in orifice tube inspection.

g.h. All meter test reports, including failed meter test reports, must be filed within thirty days of completion of proving or calibration tests unless otherwise approved. Test reports are to be filed on, but not limited to, all meters used for allocation measurement of oil or gas, and all meters used in crude oil custody transfer, conventional pipe provers, and master meter provers.

~~h.a. Accuracy of all equipment used to test oil or gas meters must be traceable to the standards of the national institute of standards and technology. The equipment must be certified as accurate either by the manufacturer or an independent testing facility. The certificates of accuracy must be made available upon request. Certification of the equipment must be updated as follows:~~

- ~~(1) Annually for all equipment used to test the pressure and differential pressure elements.~~
- ~~(2)(1) Annually for all equipment used to determine temperature.~~
- ~~(3)(1) Biennially for all conventional pipe provers.~~
- ~~(4)(1) Annually for all master meters.~~

~~(5)(1) Five years for equipment used in orifice tube inspection.~~

7. **Variations.** Variations from all or part of this section may be granted by the ~~commission~~ director provided the variance does not affect measurement accuracy. All requests for variations must be on a facility sundry notice ~~(form 4)~~.

A register of variations requested and approved must be maintained by the ~~commission~~ director.

History: Effective May 1, 1994; amended effective July 1, 1996; September 1, 2000; July 1, 2002; April 1, 2018; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-15. Bond and transfer of wells.

1. **Bond requirements.** Prior to commencing construction of a site or appurtenance or road access thereto, any person who proposes to drill a well for oil, gas, injection, or source well for use in enhanced recovery operations, shall submit to the ~~commission~~ director; and obtain ~~its~~ the approval of the director, a surety bond or cash bond. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The operator of such well shall be the principal on the bond covering the well. Each surety bond shall be executed by a responsible surety company authorized to transact business in North Dakota.
2. **Bond amounts and limitations.** The bond shall be in the amount of fifty thousand dollars when applicable to one well only. Wells drilled to a total depth of less than two thousand feet [609.6 meters] may be bonded in a lesser amount if approved by the director. When the principal on the bond is drilling or operating a number of wells within the state or proposes to do so, the principal may submit a bond conditioned as provided by law. Wells utilized for commercial injection operations must be bonded in the amount of one hundred thousand dollars. A blanket bond covering more than one well shall be in the amount of one hundred thousand dollars, provided the bond shall be limited to no more than six of the following in aggregate:
 - a. A well that is a dry hole and is not properly plugged;
 - b. A well that is plugged and the site is not properly reclaimed;
 - c. A well that is abandoned pursuant to subsection 1 of North Dakota Century Code section 38-08-04 or section 43-02-03-55 and is not properly plugged and the site is not properly reclaimed; and
 - d. A well that is temporarily abandoned under section 43-02-03-55 for more than seven years.

If this aggregate of wells is reached, all well permits, for which drilling has not commenced, held by the principal of such bond are suspended. No rights may be exercised under the permits until the aggregate of wells drops below the required limit,

or the operator files the appropriate bond to cover the permits, at which time the rights given by the drilling permits are reinstated. A well with an approved temporary abandoned status for no more than seven years shall have the same status as an oil, gas, or injection well. The commission may, after notice and hearing, require higher bond amounts than those referred to in this section. Such additional amounts for bonds must be related to the economic value of the well or wells and the expected cost of plugging and well site reclamation, as determined by the ~~commission~~ director. The ~~commission~~ director may refuse to accept a bond or to add wells to a blanket bond if the operator or surety company has failed in the past to comply with statutes, rules, or orders relating to the operation of wells; if a civil or administrative action brought by the commission is pending against the operator or surety company; or for other good cause.

3. **Unit bond requirements.** Prior to commencing unit operations, the operator of any area under unitized management shall submit to the ~~commission~~ director, and obtain ~~its~~ the approval of the director, a surety bond or cash bond. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The operator of the unit shall be the principal on the bond covering the unit. The amount of the bond shall be specified by the commission in the order approving the plan of unitization. Each surety bond shall be executed by a responsible surety company authorized to transact business in North Dakota.

Prior to transfer of a unit to a new operator, the commission, after notice and hearing, may revise the bond amount for a unit, or in the case when the unit was not previously bonded, the commission may require a bond and set a bond amount for the unit.

4. **Bond terms.** Bonds shall be conditioned upon full compliance with North Dakota Century Code chapter 38-08, and all administrative rules and orders of the commission. It shall be a plugging bond, as well as a drilling bond, and is to endure up to and including approved plugging of all oil, gas, and injection wells as well as dry holes. Approved plugging shall also include practical reclamation of the well site and appurtenances thereto. If the principal does not satisfy the bond's conditions, then the surety shall satisfy the conditions or forfeit to the commission the face value of the bond.
5. **Transfer of wells under bond.** Transfer of property does not release the bond. In case of transfer of property or other interest in the well and the principal desires to be released from the bond covering the well, such as producers, not ready for plugging, the principal must proceed as follows:
 - a. The principal must notify the director, in writing, of all proposed transfers of wells at least thirty days before the closing date of the transfer. The director may, for good cause, waive this requirement.
 - (1) The principal shall submit a schematic drawing identifying all lines owned by the principal which leave the constructed pad or facility and shall provide any details the director deems necessary.

- (2) The principal shall submit to the ~~commission~~director a form 15 reciting that a certain well, or wells, describing each well by quarter-quarter, section, township, and range, is to be transferred to a certain transferee, naming such transferee, for the purpose of ownership or operation. The date of assignment or transfer must be stated and the form signed by a party duly authorized to sign on behalf of the principal.
 - (3) On said transfer form the transferee shall recite the following: "The transferee has read the foregoing statement and does accept such transfer and does accept the responsibility of such well under the transferee's one-well bond or, as the case may be, does accept the responsibility of such wells under the transferee's blanket bond, said bond being tendered to or on file with the commission." Such acceptance must likewise be signed by a party authorized to sign on behalf of the transferee and the transferee's surety.
 - b. When the ~~commission~~director has passed upon the transfer and acceptance and accepted it under the transferee's bond, the transferor shall be released from the responsibility of plugging the well and site reclamation. If such wells include all the wells within the responsibility of the transferor's bond, such bond will be released by the ~~commission~~director upon written request. Such request must be signed by an officer of the transferor or a person authorized to sign for the transferor. The director may refuse to transfer any well from a bond if any well on the bond is in violation of a statute, rule, or order. No abandoned well may be transferred from a bond unless the transferee has obtained a single well bond in an amount equal to the cost of plugging the well and reclaiming the well site.
 - c. The transferee (new operator) of any ~~oil, gas, or injection~~ well shall be responsible for the plugging and site reclamation of any such well and appurtenance thereto where the reclamation and restoration of land and water resources impacted by oil and gas development is in an inadequate reclamation status. For that purpose the transferee shall submit a new bond or, in the case of a surety bond, produce the written consent of the surety of the original or prior bond that the latter's responsibility shall continue and attach to such well. The original or prior bond shall not be released as to the plugging and reclamation responsibility of any such transferor until the transferee shall submit to the ~~commission~~director an acceptable bond to cover such well. All liability on bonds shall continue until the plugging and site reclamation of such wells is completed and approved.
6. **Treating plant bond.** Prior to commencing site or road access construction, any person proposing to operate a treating plant must submit to the ~~commission~~director and obtain ~~its~~the approval of the director, a surety bond or cash bond. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The person responsible for the operation of the plant shall be the principal on the bond. Each surety bond shall be executed by a responsible surety company authorized to transact business in North Dakota. The amount of the bond must be as prescribed in section 43-02-03-51.3. It is to remain in force until the operations cease, all equipment is removed from the site, and the site and appurtenances thereto are reclaimed, or liability of the bond is transferred to another bond that provides the same degree of

security. If the principal does not satisfy the bond's conditions, then the surety shall satisfy the conditions or forfeit to the commission the face value of the bond.

7. **Saltwater handling facility bond.** Prior to commencing site or road access construction, any person proposing to operate a saltwater handling facility that is not already bonded as an appurtenance shall submit to the ~~commission director~~ and obtain ~~its~~ the approval of the director, a surety bond or cash bond. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The person responsible for the operation of the saltwater handling facility must be the principal on the bond. Each surety bond must be executed by a responsible surety company authorized to transact business in North Dakota. The amount of the bond must be as prescribed in section 43-02-03-53.3. It is to remain in force until the operations cease, all equipment is removed from the site, and the site and appurtenances thereto are reclaimed, or liability of the bond is transferred to another bond that provides the same degree of security. If the principal does not satisfy the bond's conditions, the surety shall satisfy the conditions or forfeit to the commission the face value of the bond. Transfer of property does not release the bond. The director may refuse to transfer any saltwater handling facility from a bond if the saltwater handling facility is in violation of a statute, rule, or order.
8. **Crude oil and produced water underground gathering pipeline bond.** The bonding requirements for crude oil and produced water underground gathering pipelines are not to be construed to be required on flow lines, injection pipelines, pipelines operated by an enhanced recovery unit for enhanced recovery unit operations, or on piping utilized to connect wells, tanks, treaters, flares, or other equipment on the production facility.
 - a. Any owner of an underground gathering pipeline transferring crude oil or produced water, after April 19, 2015, shall submit to the ~~commission director~~ and obtain ~~its~~ the approval of the director, a surety bond or cash bond prior to July 1, 2017. Any owner of a proposed underground gathering pipeline to transfer crude oil or produced water shall submit to the ~~commission director~~ and obtain ~~its~~ the approval of the director, a surety bond or cash bond prior to placing into service. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The person responsible for the operation of the crude oil or produced water underground gathering pipeline must be the principal on the bond. Each surety bond must be executed by a responsible surety company authorized to transact business in North Dakota. The bond must be in the amount of fifty thousand dollars when applicable to one crude oil or produced water underground gathering pipeline system only. Such underground gathering pipelines that are less than one mile [1609.34 meters] in length may be bonded in a lesser amount if approved by the director. When the principal on the bond is operating multiple gathering pipeline systems within the state or proposes to do so, the principal may submit a blanket bond conditioned as provided by law. A blanket bond covering one or more underground gathering pipeline systems must be in the amount of one hundred thousand dollars. The owner shall file with the director, as prescribed by the director, a geographical information system layer utilizing North American datum 83 geographic coordinate system and in an

environmental systems research institute shape file format showing the location of all associated above ground equipment and the pipeline centerline from the point of origin to the termination point of all underground gathering pipelines on the bond. Each layer must include at least the following information:

- (1) The name of the pipeline gathering system and other separately named portions thereof;
 - (2) The type of fluid transported;
 - (3) The pipeline composition;
 - (4) Burial depth; and
 - (5) Approximate in-service date.
- b. The blanket bond covering more than one underground gathering pipeline system is limited to no more than six of the following instances of noncompliance in aggregate:
- (1) Any portion of an underground gathering pipeline system that has been removed from service for more than one year and is not properly abandoned pursuant to section 43-02-03-29.1; and
 - (2) An underground gathering pipeline right-of-way, including associated above ground equipment, which has not been properly reclaimed pursuant to section 43-02-03-29.1.

If this aggregate of underground gathering pipeline systems is reached, the ~~commission director~~ may refuse to accept additional pipeline systems on the bond until the aggregate is brought back into compliance. The commission, after notice and hearing, may require higher bond amounts than those referred to in this section. Such additional amounts for bonds must be related to the economic value of the underground gathering pipeline system and the expected cost of pipeline abandonment and right-of-way reclamation, as determined by the ~~commission director~~. The ~~commission director~~ may refuse to accept a bond or to add underground gathering pipeline systems to a blanket bond if the owner or surety company has failed in the past to comply with statutes, rules, or orders relating to the operation of underground gathering pipelines; if a civil or administrative action brought by the commission is pending against the owner or surety company; if an underground gathering pipeline system has exhibited multiple failures; or for other good cause.

- c. The underground gathering pipeline bond is to remain in force until the pipeline has been abandoned, as provided in section 43-02-03-29.1, and the right-of-way, including all associated above ground equipment, has been reclaimed as provided in section 43-02-03-29.1, or liability of the bond is transferred to another bond that provides the same degree of security. If the principal does not satisfy the bond's conditions, the surety shall satisfy the conditions or forfeit to the commission the

face value of the bond.

- d. Transfer of underground gathering pipelines under bond. Transfer of property does not release the bond. In case of transfer of property or other interest in the underground gathering pipeline and the principal desires to be released from the bond covering the underground gathering pipeline, the principal must proceed as follows:

- (1) The principal shall notify the director, in writing, of all proposed transfers of underground gathering pipelines at least thirty days before the closing date of the transfer. The director, for good cause, may waive this requirement.

Notice of underground gathering pipeline transfer. The principal shall submit, as provided by the director, a geographical information system layer utilizing North American datum 83 geographic coordinate system and in an environmental systems research institute shape file format showing the location of all associated above ground equipment and the pipeline centerline from the point of origin to the termination point of all underground gathering pipelines to be transferred to a certain transferee, naming such transferee, for the purpose of ownership or operation. The date of assignment or transfer must be stated and the form 15pl signed by a party duly authorized to sign on behalf of the principal.

The notice of underground gathering pipeline transfer must recite the following: "The transferee has read the foregoing statement and does accept such transfer and does accept the responsibility of such underground gathering pipelines under the transferee's pipeline bond or, as the case may be, does accept the responsibility of such underground gathering pipelines under the transferee's pipeline systems blanket bond, said bond being tendered to or on file with the commission." Such acceptance must likewise be signed by a party authorized to sign on behalf of the transferee and the transferee's surety.

- (2) When the ~~commission director~~ has passed upon the transfer and acceptance and accepted it under the transferee's bond, the transferor must be released from the responsibility of abandoning the underground gathering pipelines and right-of-way reclamation. If such underground gathering pipelines include all underground gathering pipeline systems within the responsibility of the transferor's bond, such bond will be released by the ~~commission director~~ upon written request. Such request must be signed by an officer of the transferor or a person authorized to sign for the transferor. The director may refuse to transfer any underground gathering pipeline from a bond if the underground gathering pipeline is in violation of a statute, rule, or order.
- (3) The transferee (new owner) of any underground gathering pipeline is responsible for the abandonment and right-of-way reclamation of any such underground gathering pipeline. For that purpose the transferee shall submit a new bond or, in the case of a surety bond, produce the written consent of

the surety of the original or prior bond that the latter's responsibility shall continue and attach to such underground gathering pipeline. The original or prior bond may not be released as to the abandonment and right-of-way reclamation responsibility of any such transferor until the transferee submits to the ~~commission~~ director an acceptable bond to cover such underground gathering pipeline. All liability on bonds continues until the abandonment and right-of-way reclamation of such underground gathering pipeline is completed and approved by the director.

9. **Geological storage facility bond requirements.** Before commencing injection operations, the operator of any storage facility shall submit to the ~~commission~~ director, and obtain ~~its~~ the approval of the director, a surety bond or cash bond in the amount specified by the commission in the order approving the storage facility. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The operator of the storage facility shall be the principal on the bond covering the storage facility. Each surety bond must be executed by a responsible surety company authorized to transact business in North Dakota.
10. **Enhanced oil recovery potential well bond.** Before the director may approve a non-unit well for enhanced oil recovery potential status, the operator shall submit to the director and obtain the approval of the director, a blanket surety bond or cash bond in the amount of one hundred thousand dollars, provided the bond shall be limited to no more than six wells that have been inactive for more than twelve years. Wells within an approved enhanced recovery unit approved for enhanced oil recovery potential status may remain on the unit bond at the discretion of the director. An alternative form of security may be approved by the commission after notice and hearing, as provided by law. The operator of such well shall be the principal on the bond covering the well. Each surety bond shall be executed by a responsible surety company authorized to transact business in North Dakota. Each such bond may be subject to an annual review to determine if the bond amount is sufficient and the commission may, after notice and hearing, require a higher bond amount. Such additional amounts for bonds must be related to the economic value of the well or wells and the expected cost of plugging and well site reclamation, as determined by the director. The director may refuse to accept a bond or to add wells to an enhanced oil recovery potential blanket bond if the operator or surety company has failed in the past to comply with statutes, rules, or orders relating to the operation of wells; if a civil or administrative action brought by the commission is pending against the operator or surety company; or for other good cause.
- ~~10.11.~~ **Bond termination.** The ~~commission~~ director shall, in writing, advise the principal and any sureties on any bond as to whether the plugging and reclamation is approved. If approved, liability under such bond may be formally terminated upon receipt of a written request by the principal. The request must be signed by an officer of the principal or a person authorized to sign for the principal.
- ~~11.12.~~ **Director's authority.** The director is vested with the power to act for the commission as to all matters within this section, except requests for alternative forms of security, which may only be approved by the commission.

History: Amended effective April 30, 1981; March 1, 1982; January 1, 1983; May 1, 1990; May 1, 1992; May 1, 1994; July 1, 1996; December 1, 1996; September 1, 2000; July 1, 2002; May 1, 2004; January 1, 2006; April 1, 2012; April 1, 2014; October 1, 2016; April 1, 2018; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-16. Application for permit to drill and recomplete.

Before any person shall begin any well-site preparation for the drilling of any well other than surveying and staking, such person shall obtain approval from the director. An application for permit to drill (~~form 1 or form provided by the commission~~) must be filed with the director, together with a permit fee of one hundred dollars. ~~Verbal approval may be given for site preparation by the director in extenuating circumstances.~~ Site construction, or appurtenance or road access thereto, may not commence until such application is approved and a permit to drill is issued by the director. Verbal approval may be given for site preparation by the director in extenuating circumstances to include but not be limited to contractual obligations, an expiring lease, or an expiring right-of-way. The application must be accompanied by the bond pursuant to section 43-02-03-15 or the applicant must have previously filed such bond with the ~~commission~~ director, otherwise the application is incomplete. An incomplete application received by the ~~commission~~ director has no standing and will not be deemed filed until it is completed.

The application for permit to drill shall be accompanied by an accurate plat certified by a registered surveyor showing the location of the proposed well with reference to true north and the nearest lines of a governmental section, the latitude and longitude of the proposed well location to the nearest tenth of a second, the ground elevation, and the proposed road access to the nearest existing public road. Information to be included in such application shall be the proposed depth to which the well will be drilled, estimated depth to the top of important markers, estimated depth to the top of objective horizons, the proposed mud program, the proposed casing program, including size and weight thereof, the depth at which each casing string is to be set, the proposed pad layout, including cut and fill diagrams, and the proposed amount of cement to be used, including the estimated top of cement.

For wells permitted on new pads built after July 31, 2013, permit conditions imposed by the ~~commission~~ director may include, upon request of the owner of a permanently occupied dwelling within one thousand feet of the proposed well, requiring the location of all flares, tanks, and treaters utilized in connection with the permitted well be located at a greater distance from the occupied dwelling than the well head, if the location can be reasonably accommodated within the proposed pad location. If the facilities are proposed to be located farther from the dwelling than the well bore, the director can issue the permit without comment from the dwelling owner. The applicant shall give any such owners written notice of the proposed facilities personally or by certified mail, return receipt requested, and addressed to their last-known address listed with the county property tax department. The ~~commission~~ director must receive written comments from such owner within five business days of the owner receiving said notice. An application for permit must include an affidavit from the applicant identifying each owner's name and address, and the date written notice was given to each owner. The owner's notice must include:

1. A copy of North Dakota Century Code section 38-08-05.
2. The name, telephone number, and if available the electronic mail address of the applicant's local representative.
3. A sketch of the area indicating the location of the owner's dwelling, the proposed well, and location of the proposed flare, tanks, and treaters.
4. A statement indicating that any such owner objecting to the location of the flare, tanks, or treaters, must notify the ~~commission~~ director within five business days of receiving the notice.

Prior to the commencement of recompletion operations or drilling horizontally in the existing pool, an application for permit must be approved by the director. ~~Included in such~~ Such application shall be ~~the notice of intention (form 4)~~ filed to reenter a well by drilling horizontally, deepening, or plugging back to any source of supply other than the producing horizon in an existing well. Such notice shall include the name and file number and exact location of the well, the approximate date operations will begin, the proposed procedure, the estimated completed total depth, the anticipated hydrogen sulfide content in produced gas from the proposed source of supply, the weight and grade of all casing currently installed in the well unless waived by the director, the casing program to be followed, and the original total depth with a permit fee of fifty dollars. The director may deny any application if it is determined, in accordance with the latest version of ANSI/NACE MR0175/ISO 15156, that the casing currently installed in the well would be subject to sulfide stress cracking.

The applicant shall provide all information, in addition to that specifically required by this section, if requested by the director. The director may impose such terms and conditions on the permits issued under this section as the director deems necessary.

The director shall deny an application for a permit under this section if the proposal would cause, or tend to cause, waste or violate correlative rights. The director of oil and gas shall state in writing to the applicant the reason for the denial of the permit. The applicant may appeal the decision of the director to the commission.

A permit to drill automatically expires one year after the date it was issued, unless the well is drilling or has been drilled below surface casing. A permit to recomplete or to drill horizontally automatically expires one year after the date it was issued, unless such project has commenced. The director may extend a permit to drill and a permit to recomplete or drill horizontally for up to one year upon request.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; May 1, 1994; September 1, 2000; July 1, 2002; April 1, 2010; April 1, 2012; April 1, 2014; October 1, 2016; April 1, 2020; _____.

General Authority
NDCC 38-08-05

Law Implemented
NDCC 38-08-05

43-02-03-16.3. Recovery of a risk penalty.

The following govern the recovery of the risk penalty pursuant to subsection 3 of North Dakota Century Code section 38-08-08 and subsection 3 of North Dakota Century Code section 38-08-09.4:

1. An owner may recover the risk penalty under the provisions of subsection 3 of North Dakota Century Code section 38-08-08, provided the owner gives, to the owner from whom the penalty is sought, a written invitation to participate in the risk and cost of drilling a well, including reentering a plugged and abandoned well, or the risk and cost of reentering an existing well to drill deeper or a horizontal lateral. If the nonparticipating owner's interest is not subject to a lease or other contract for development, an owner seeking to recover a risk penalty must also make a good-faith attempt to have the unleased owner execute a lease.
 - a. The invitation to participate in drilling must be in writing and contain the following:
 - (1) The approximate surface location of the proposed or existing well, proposed completion and total depth, objective zone, and completion location if other than a vertical well.
 - (2) An itemization of the estimated costs of drilling and completion.
 - (3) The approximate date upon which the well was or will be spudded or reentered.
 - (4) A written election to participate and a statement indicating the invitation or election must be accepted within thirty days of receiving it. Such election to participate must be received by the owner giving the invitation within thirty days of the participating party's receipt.
 - (5) Notice that the participating owners plan to impose a risk penalty and that the nonparticipating owner may object to the risk penalty by either responding in opposition to the petition for a risk penalty, or if no such petition has been filed, by filing an application or request for hearing with the commission.
 - (6) Drilling or spacing unit description.
 - ~~b. An election to participate must be in writing and must be received by the owner giving the invitation within thirty days of the participating party's receipt of the invitation.~~
 - e.b. An invitation to participate and an election to participate must be served personally, by mail requiring a signed receipt, or by overnight courier or delivery service requiring a signed receipt. Failure to accept mail requiring a signed receipt constitutes service.

~~d.c.~~ An election to participate is only binding upon an owner electing or declining to participate if the well is spudded or reentry operations are commenced on or before ninety days after the date the owner extending the invitation to participate sets as the date upon which ~~a~~ an election response to the invitation is to be received. It also expires if the permit to drill or reenter expires without having been exercised. If an election to participate lapses, a risk penalty can only be collected if the owner seeking it again complies with the provisions of this section.

2. An owner may recover the risk penalty under the provisions of subsection 3 of North Dakota Century Code section 38-08-09.4, provided the owner gives, to the owner from whom the penalty is sought, a written invitation to participate in the unit expense. If the nonparticipating owner's interest is not subject to a lease or other contract for development, an owner seeking to recover a risk penalty must also make a good-faith attempt to have the unleased owner execute a lease.

a. The invitation to participate in the unit expense must be in writing and contain the following:

- (1) A description of the proposed unit expense, including the location, objectives, and plan of operation.
- (2) An itemization of the estimated costs.
- (3) The approximate date upon which the proposal was or will be commenced.
- (4) A written election to participate and a statement indicating the invitation or election must be accepted within thirty days of receiving it. Such election to participate must be received by the owner giving the invitation within thirty days of the participating party's receipt.
- (5) Notice that the participating owners plan to impose a risk penalty and that the nonparticipating owner may object to the risk penalty by either responding in opposition to the petition for a risk penalty, or if no such petition has been filed, by filing an application or request for hearing with the commission.

~~b.~~ ~~An election to participate must be in writing and must be received by the owner giving the invitation within thirty days of the participating party's receipt of the invitation.~~

~~e.b.~~ An invitation to participate and an election to participate must be served personally, by mail requiring a signed receipt, or by overnight courier or delivery service requiring a signed receipt. Failure to accept mail requiring a signed receipt constitutes service.

~~d.c.~~ An election to participate is only binding upon an owner electing or declining to participate if the unit expense is commenced within ninety days after the date the owner extending the invitation request to participate sets as the date upon which ~~a~~ an election response to the request invitation is to be received. If an election to

participate lapses, a risk penalty can only be collected if the owner seeking it again complies with the provisions of this section.

e.d. An invitation to participate in a unit expense covering monthly operating expenses shall be effective for all such monthly operating expenses for a period of five years if the unit expense identified in the invitation to participate is first commenced within ninety days after the date set in the invitation to participate as the date upon which ~~a~~ an election response to the invitation to participate must be received. An election to participate in a unit expense covering monthly operating expenses is effective for five years after operations are first commenced. If an election to participate in a unit expense comprised of monthly operating expenses expires or lapses after five years, a risk penalty may only be assessed and collected if the owner seeking the penalty once again complies with this section.

3. Upon its own motion or the request of a party, the commission may include in a pooling order requirements relating to the invitation to participate and election to participate, in which case the pooling order will control to the extent it is inconsistent with this section.

History: Effective December 1, 1996; amended effective May 1, 2004; January 1, 2006; January 1, 2008; April 1, 2010; April 1, 2012; April 1, 2014; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04
NDCC 38-08-08

43-02-03-17. Sign on well and facility.

Every well and facility associated with the production, transportation, purchasing, storage, treating, or processing of oil, gas, and water except plugged wells shall be identified by a sign. The sign shall be of durable construction and the lettering thereon shall be kept in a legible condition. The wells on each lease or property shall be numbered in nonrepetitive sequence, unless some other system of numbering was adopted by the owner prior to the adoption of this chapter. Each sign must show the facility name or well name and number (which shall be different or distinctive for each well or facility), the name of the operator, current emergency phone number, file or facility number (if applicable), and the location by quarter-quarter, section, township, and range.

History: Amended effective January 1, 1983; May 1, 1992; September 1, 2000; April 1, 2014; October 1, 2016; April 1, 2018; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-19.3. Earthen pits and receptacles.

Except as otherwise provided in this section and sections 43-02-03-19.4, 43-02-03-19.5, and 43-02-03-51.3, no saltwater, drilling mud, crude oil, waste oil, or other waste shall be stored in earthen pits or open receptacles except in an emergency and upon approval by the director.

A lined earthen pit or open receptacle may be temporarily used to retain oil, water, cement, solids, or fluids generated in well plugging operations. A pit or receptacle used for this purpose must be sufficiently impermeable to provide adequate temporary containment of the oil, water, or fluids. The contents of the pit or receptacle must be removed within seventy-two hours after operations have ceased and must be disposed of at an authorized facility in accordance with section 43-02-03-19.2. Within thirty days after operations have ceased, the earthen pit shall be reclaimed and the open receptacle shall be removed. The director may grant an extension of the thirty-day time period to no more than one year for good reason.

The director may permit pits or receptacles used solely for the purpose of flaring casinghead gas. A pit or receptacle used for this purpose must be sufficiently impermeable to provide adequate temporary containment of fluids. Permission for such pit or receptacle shall be conditioned on locating the pit not less than one hundred fifty feet [45.72 meters] from the vicinity of wells and tanks and keeping it free of any saltwater, crude oil, waste oil, or other waste. Saltwater, drilling mud, crude oil, waste oil, or other waste shall be removed from the pit or receptacle within twenty-four hours after being discovered and must be disposed of at an authorized facility in accordance with section 43-02-03-19.2.

The director may permit pits used solely for storage of freshwater used in completion and well servicing operations. ~~Permits~~ Permit applications for freshwater pits shall be submitted on a sundry notice and shall be valid for a period of one year but may be reauthorized upon application. Freshwater pits shall be lined and no pit constructed for this purpose shall be wholly or partially constructed in fill dirt unless approved by the director. The director may approve chemical treatment to municipal drinking water standards upon application. The freshwater pit shall have signage on all sides accessible to vehicular traffic clearly identifying the usage as freshwater only.

The director may permit portable-collapsible receptacles used solely for storage of fluids used in completion and well servicing operations, although no flowback fluids may be allowed. ~~Permits~~ Permit applications for such receptacles shall be submitted on a sundry notice and shall be ~~are~~ valid for a period of one year but may be reauthorized upon application. Such receptacles must utilize a sealed inner bladder, erected to conform to American petroleum institute standards, and may not be wholly or partially constructed on fill dirt unless approved by the director. Such receptacles must have signage on all sides accessible to vehicular traffic clearly identifying the fluid contained within.

The director may permit portable-collapsible single sidewall, double liner open top receptacles used solely for storage of fluids used in completion and well servicing operations, although no flowback fluids may be allowed. Such receptacles must have signage on all sides accessible to vehicular traffic clearly identifying the fluid contained within. Permits for such receptacles shall be submitted on a sundry notice and shall be valid for a period of one year but may be reauthorized upon application. Permits for such receptacles must include at least the following information:

1. The name and address of the operator.
2. Legal location of the site where the open top receptacle will be located.

3. Structural engineering analysis of the open top receptacle including panels and connection system.
4. Schematic drawings depicting the following:
 - a. As-built or proposed cut and fill diagram showing how the open top receptacle will be located in a cut area of the site.
 - b. The site that includes its dimensions or proposed dimensions as well as the height, location, and calculated capacity of the perimeter berm and any other spill containment structures.
 - c. Fill pipe or filling mechanism designed to protect the liner system from the initial force of water entering the open top receptacle.
 - d. Isolation valves in the produced water and freshwater flowlines.
 - e. Location of the concrete jersey barriers around the open top receptacle to avert vehicular traffic and impede the flow of water in the event of a breach.
5. Descriptions of the following:
 - a. The double liner system including liner specifications.
 - b. Sand pad and geotextile liner used to protect the liner system.
 - c. Real time leak detection and monitoring system, including between the liners and visual inspections.
 - d. Overfill and low-level detection systems.
 - e. Mechanical integrity testing plan using freshwater of the system.
 - f. Emergency plan for emptying the open top receptacle and addressing resources on standby in the event of a breach.
 - g. Estimated setup and deconstruction dates.
6. The director may docket the permit application for hearing to gather additional information necessary to evaluate the proposed open top receptacle and site.
7. Permits may contain such terms and conditions as the director deems necessary.
8. Any permit issued under this section may be revoked by the commission after notice and hearing if the permittee fails to comply with the terms and conditions of the permit, any directive of the director, or any applicable rule or statute.
9. Any permit issued under this section may be modified or suspended by the director for good cause.
10. Permits are transferable only with approval of the director.

History: Effective September 1, 2000; amended effective April 1, 2010; April 1, 2012; October 1, 2016; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-20. Sealing off strata.

During the drilling of any ~~oil or natural gas~~ well, all oil, gas, and water strata ~~above the producing horizon~~ shall be sealed or separated where necessary in order to prevent their contents from passing into other strata.

All freshwaters and waters of present or probable value for domestic, commercial, or stock purposes shall be confined to their respective strata and shall be adequately protected by methods approved by the ~~commission~~ director. Special precautions shall be taken in drilling and plugging wells to guard against any loss of artesian water from the strata in which it occurs and the contamination of artesian water by objectionable water, oil, or gas.

All water shall be shut off and excluded from the various oil-bearing and gas-bearing strata which are penetrated. Water shutoffs shall ordinarily be made by cementing casing or landing casing with or without the use of mud-laden fluid.

History: Amended effective May 1, 1992; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-21. Casing, tubing, and cementing requirements.

All wells drilled ~~for oil, natural gas, or injection~~ shall be ~~completed~~ constructed with strings of casing which shall be properly cemented at sufficient depths to adequately protect and isolate all formations containing water, oil, or gas or any combination of these; protect the pipe through salt sections encountered; and isolate the uppermost sand of the Dakota group.

Drilling of the surface hole shall be with freshwater-based drilling mud or other method approved by the director which will protect all freshwater-bearing strata. This includes water used during the cementing of surface casing for displacement. The surface casing shall consist of new or reconditioned pipe that has been previously tested to one thousand pounds per square inch [6900 kilopascals]. The surface casing shall be set and cemented at a point not less than fifty feet [15.24 meters] below the base of the Fox Hills formation. Sufficient cement shall be used on surface casing to fill the annular space behind the casing to the bottom of the cellar, if any, or to the surface of the ground. If the annulus space is not adequately filled with cement, the director shall be notified immediately. The operator shall diligently perform remedial work after obtaining approval from the director. All strings of surface casing shall stand cemented under pressure for at least twelve hours before drilling the plug. The term "under pressure" as used herein shall be complied with if one float valve is used or if pressure is otherwise held. Cementing shall be by the pump and plug method while the drilling rig is on the well or other methods approved by the director. ~~The director is authorized to require an~~ An appropriate accurate gauge shall be maintained on the surface casing of any well, not properly plugged and abandoned, to

detect any buildup of pressure caused by the migration of fluids. Surface casing pressure shall be monitored and maintained to keep the hydrostatic pressure at the surface casing shoe below the pressure the formation integrity test was performed at.

Surface casing strings must be allowed to stand under pressure until the tail cement has reached a compressive strength of at least five hundred pounds per square inch [3450 kilopascals]. All filler cements utilized must reach a compressive strength of at least two hundred fifty pounds per square inch [1725 kilopascals] within twenty-four hours and at least three hundred fifty pounds per square inch [2415 kilopascals] within seventy-two hours. All compressive strengths on surface casing cement shall be calculated at a temperature of eighty degrees Fahrenheit [26.67 degrees Celsius].

Production or intermediate casing strings shall consist of new or reconditioned pipe that has been previously tested to two thousand pounds per square inch [13800 kilopascals]. Such strings must be allowed to stand under pressure until the tail cement has reached a compressive strength of at least five hundred pounds per square inch [3450 kilopascals]. All filler cements utilized must reach a compressive strength of at least two hundred fifty pounds per square inch [1725 kilopascals] within twenty-four hours and at least five hundred pounds per square inch [3450 kilopascals] within seventy-two hours, although in any horizontal well performing a single stage cement job from a measured depth of greater than thirteen thousand feet [3962.4 meters], the filler cement utilized must reach a compressive strength of at least two hundred fifty pounds per square inch [1725 kilopascals] within forty-eight hours and at least five hundred pounds per square inch [3450 kilopascals] within ninety-six hours. All compressive strengths on production or intermediate casing cement shall be calculated at a temperature found in the Mowry formation using a gradient of 1.2 degrees Fahrenheit per one hundred feet [30.48 meters] of depth plus eighty degrees Fahrenheit [26.67 degrees Celsius]. At a formation temperature at or in excess of two hundred thirty degrees Fahrenheit [110 degrees Celsius], cement blends must include additives to address compressive strength regression.

Each surface casing string shall be tested by application of pump pressure of at least one thousand pounds per square inch [6900 kilopascals] and each other casing string shall be tested by application of pump pressure of at least one thousand five hundred pounds per square inch [10350 kilopascals] immediately after cementing, while the cement is in a liquid state, or the casing string must be pressure tested after all cement has reached five hundred pounds per square inch [3450 kilopascals] compressive strength. If, at the end of thirty minutes, this pressure has dropped more than ten percent, the casing shall be repaired after receiving approval from the director. Thereafter, the casing shall again be tested in the same manner. Further work shall not proceed until a satisfactory test has been obtained. The casing in a horizontal well may be tested by use of a mechanical tool set near the casing shoe after the horizontal section has been drilled.

All flowing wells must be equipped with tubing. A tubing packer must also be utilized unless a waiver from the director is obtained after demonstrating the casing will not be subjected to excessive pressure or corrosion. The packer must be set as near the producing interval as practicable, but in all cases must be above the perforations.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; July 1, 1996; January 1, 1997; September 1, 2000; July 1, 2002; May 1, 2004; January 1, 2006; April 1, 2010; April 1, 2012; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-24. Pulling string of casing.

In pulling strings of casing from any ~~oil, gas, or injection~~ well, the space above the casing stub shall be kept and left full of fluid with adequate gel strength and specific gravity, cement, or combination thereof, to seal off all freshwater and saltwater strata and any strata bearing oil or gas not producing. No casing shall be removed without the prior approval of the director.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-27.1. Hydraulic fracture stimulation.

1. Prior to performing any hydraulic fracture stimulation, including refracs, through a frac string run inside the ~~intermediate~~ casing string:
 - a. Remedial work is required to be performed on all casing strings deemed defective pursuant to section 43-02-03-22 prior to performance at the discretion of the director.
 - a.b. The frac string must be either stung into a liner with the hanger/packer located in cemented casing or run with a packer set at a minimum depth of one hundred feet [30.48 meters] below the top of cement or a minimum depth of one hundred feet [30.48 meters] below the top of the Inyan Kara formation, whichever is deeper.
 - b.c. The ~~intermediate~~ casing-frac string annulus must be pressurized and monitored during frac operations. ~~Prior to performing any refrac, a casing evaluation tool must be run to verify adequate wall thickness of the intermediate casing. If there is a suspected frac string or casing failure, the operator of the well shall verbally notify the director as soon as practicable.~~
 - e.d. An adequately sized, function tested pressure relief valve must be utilized on the treating lines from the pumps to the wellhead, with suitable check valves to limit the volume of flowback fluid should the relief valve open. The relief valve must be set to limit line pressure to no more than eighty-five percent of the internal yield pressure of the frac string. An adequately sized, function tested pressure relief valve and an ~~adequate~~ adequately sized diversion line must be utilized to divert flow from the ~~intermediate~~ casing to a pit or containment vessel in case of frac string failure. The relief valve must be set to limit annular pressure to no more than eighty-five percent of the lowest internal yield pressure of the ~~intermediate~~ casing string or no greater than the pressure test on the intermediate casing, less one hundred pounds per square inch gauge, whichever is less.

- ~~e.~~ The surface casing must be fully open and connected to a diversion line rigged to a pit or containment vessel.
- ~~f.~~ An adequately sized, function tested remote operated frac valve must be utilized at a location on the christmas tree that provides isolation of the well bore from the treating line and must be remotely operated from the edge of the location or other safe distance.
- ~~g.~~ Notify the director within twenty-four hours after the commencement of hydraulic fracture stimulation operations, in an electronic format approved by the director, identifying the subject well and verifying a frac string was run in the well.
- ~~h.~~ Within sixty days after the hydraulic fracture stimulation is performed, the owner, operator, or service company shall post on the fracfocus chemical disclosure registry all elements made viewable by the fracfocus website.
2. Prior to performing any hydraulic fracture stimulation, including refracs, through ~~an~~ a ~~intermediate~~-casing string:
- a. Remedial work is required to be performed on all casing strings deemed defective pursuant to section 43-02-03-22 prior to performance at the discretion of the director.
- ~~a.b.~~ The maximum treating pressure shall be no greater than eighty-five percent of the American petroleum institute rating of the affected ~~intermediate~~-casing string.
- ~~b.c.~~ Casing evaluation tools to verify adequate wall thickness of any affected ~~intermediate~~-casing string shall be run from the wellhead to a depth as close as practicable to one hundred feet [30.48 meters] above the completion formation and a visual inspection with photographs shall be made of the top joint of the ~~intermediate~~-casing and the wellhead flange. The visual inspection and photograph requirement may be waived by the director for good cause.
- If the casing evaluation tool or visual inspection indicates wall thickness is below the American petroleum institute minimum or a lighter weight of ~~intermediate~~ casing than the well design called for, calculations must be made to determine the reduced pressure rating. If the reduced pressure rating is less than the anticipated treating pressure, a frac string shall be run inside the ~~intermediate~~-casing.
- ~~e.d.~~ Cement evaluation tools to verify adequate cementing of each ~~intermediate~~-casing string shall be run from the wellhead to a depth as close as practicable to one hundred feet [30.48 meters] above the completion formation.
- (1) If the cement evaluation tool indicates defective casing or cementing, a frac string shall be run inside the ~~intermediate~~-casing.
- (2) If the cement evaluation tool indicates the ~~intermediate~~-casing string cemented in the well fails to satisfy section 43-02-03-21, a frac string shall be run inside the ~~intermediate~~-casing.

- ~~d.e.~~ Each affected ~~intermediate~~-casing string and the wellhead must be pressure tested for at least thirty minutes with less than five percent loss to a pressure equal to or in excess of the maximum frac design pressure. If the pressure rating of the wellhead does not exceed the maximum frac design pressure, a wellhead and blowout preventer protection system must be utilized during the frac.
- e.f. An adequately sized, function tested pressure relief valve must be utilized on the treating lines from the pumps to the wellhead, with suitable check valves to limit the volume of flowback fluid should be the relief valve open. The relief valve must be set to limit line pressure to no greater than the test pressure of the ~~intermediate~~ casing, less one hundred pounds per square inch [689.48 kilopascals].
- ~~f.g.~~ The surface casing valve must be fully open and connected to a diversion line rigged to a pit or containment vessel.
- h. An adequately sized, function tested remote operated frac valve must be utilized between the treating line and the wellhead.
- ~~g.i.~~ If there is a suspected casing failure, the operator of the well shall verbally notify the director as soon as practicable.
- ~~h.j.~~ Notify the director within twenty-four hours after the commencement of hydraulic fracture stimulation operations, in an electronic format approved by the director, identifying the subject well and verifying all logs and pressure tests have been performed as required.
- ~~i.k.~~ Within sixty days after the hydraulic fracture stimulation is performed, the owner, operator, or service company shall post on the fracfocus chemical disclosure registry all elements made viewable by the fracfocus website.
3. If during the stimulation, the pressure in the ~~intermediate~~-casing-surface casing annulus exceeds three hundred fifty pounds per square inch [2413 kilopascals] gauge, the owner or operator shall verbally notify the director as soon as practicable but no later than twenty-four hours following the incident.

History: Effective April 1, 2012; amended effective April 1, 2014; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-28. Safety regulation.

During drilling operations all oil wells shall be cleaned into a pit or tank, not less than forty feet [12.19 meters] from the derrick floor and one hundred fifty feet [45.72 meters] from any fire hazard.

All flowing oil wells must be produced through an approved oil and gas separator or emulsion treater of ample capacity and in good working order. No boiler, electric generator, flare, or treater shall be placed nearer than one hundred fifty feet [45.72 meters] to any producing well or oil tank that is not an oil processing vessel as defined in American Society of Mechanical Engineers (ASME) Section VIII. Placement as close as one hundred twenty-five feet [38.10 meters] may be allowed if a spark or flame arrestor is utilized on the equipment. Placement of an oil processing vessel as defined in American Society of Mechanical Engineers (ASME) Section VIII as close as fifty feet [15.24 meters] may be allowed if approved by the director. The required distances above shall be measured horizontally from closest vessel edge to closest edge of the boiler, generator, flare, or treater or closest vessel edge to flame arrestor or burner air inlet edge. Any rubbish or debris that might constitute a fire hazard shall be removed to a distance of at least one hundred fifty feet [45.72 meters] from the vicinity of wells and tanks. All waste shall be burned or disposed of in such manner as to avoid creating a fire hazard. All vegetation must be removed to a safe distance from any production or injection equipment to eliminate a fire hazard.

The director may require remote operated or automatic shutdown equipment to be installed on, or shut in for no more than forty days, any well that is likely to cause a serious threat of pollution or injury to the public health or safety.

Surface casing shall not be plumbed into the production flowline to relieve pressure without approval from the director.

No well shall be drilled nor production or injection equipment installed nor saltwater handling facility or treating plant constructed less than five hundred feet [152.40 meters] from an occupied dwelling unless agreed to in writing by the owner of the dwelling or authorized by order of the commission.

Subsurface pressure must be controlled during all drilling, completion, and well-servicing operations with appropriate fluid weight and pressure control equipment. The operator conducting any well hydraulic fracture stimulation shall give prior written notice, up to thirty-one days and not less than twenty-one days, to any operator of a well completed in the same or adjacent pool, if publicly available information indicates or if the operator is made aware, if the completion intervals are within two thousand six hundred and forty feet [804.67 meters] of one another. Notice must include twenty-four-hour emergency contact information, planned start and end dates, and contact information for scheduling updates.

History: Amended effective January 1, 1983; May 1, 1990; September 1, 2000; January 1, 2006; January 1, 2008; April 1, 2012; April 1, 2014; October 1, 2016; April 1, 2020;_____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-29. Well and lease equipment and gas gathering pipelines.

Wellhead and lease equipment with a working pressure at least equivalent to the calculated or known pressure to which the equipment may be subjected shall be installed and maintained. Equipment on producing wells shall be installed to facilitate gas-oil ratio tests, and static bottom hole or other pressure tests. Valves shall be installed and maintained in good working order to

permit pressure readings to be obtained on both casing and tubing.

All newly constructed underground gas gathering pipelines must be devoid of leaks and constructed of materials resistant to external corrosion and to the effects of transported fluids. All such pipelines installed in a trench must be installed in a manner that minimizes interference with agriculture, road and utility construction, the introduction of secondary stresses, the possibility of damage to the pipe, and tracer wire shall be buried with any nonconductive pipes installed. When a trench for an underground gas gathering pipeline is backfilled, it must be backfilled in a manner that provides firm support under the pipe and prevents damage to the pipe and pipe coating from equipment or from the backfill material.

1. The operator of any underground gas gathering pipeline placed into service on August 1, 2011, to June 30, 2013, shall file with the director, by January 1, 2015, a geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the location of the pipeline centerline. The operator of any underground gas gathering pipeline placed into service after June 30, 2013, shall file with the director, within one hundred eighty days of placing into service, a geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (~~Ers~~Esri) shape file format showing the location of all compressor sites, buried drip tanks, and the pipeline centerline. An affidavit of completion shall accompany each layer containing the following information:
 - a. A statement that the pipeline was constructed and installed in compliance with section 43-02-03-29.
 - b. The outside diameter, minimum wall thickness, composition, internal yield pressure, and maximum temperature rating of the pipeline, or any other specifications deemed necessary by the director.
 - c. The anticipated operating pressure of the pipeline.
 - d. The type of fluid that will be transported in the pipeline and direction of flow.
 - e. Pressure to which the pipeline was tested prior to placing into service.
 - f. The minimum pipeline depth of burial.
 - g. In-service date.
 - h. Leak detection and monitoring methods that will be utilized after in-service date.
 - i. Pipeline name.
 - j. Accuracy of the geographical information system layer.
2. When an underground gas gathering pipeline or any part of such pipeline is abandoned, the operator shall leave such pipeline in a safe condition by conducting the following:

- a. Disconnect and physically isolate the pipeline from any operating facility or other pipeline.
 - b. Cut off the pipeline or the part of the pipeline to be abandoned below surface at pipeline level.
 - c. Purge the pipeline with fresh water, air, or inert gas in a manner that effectively removes all fluid.
 - d. Remove cathodic protection from the pipeline.
 - e. Permanently plug or cap all open ends by mechanical means or welded means.
3. Within one hundred eighty days of completing the abandonment of an underground gas gathering pipeline the operator of the pipeline shall file with the director a geographical information system layer utilization North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (~~Ersi~~Esri) shape file format showing the location of the pipeline centerline and an affidavit of completion containing the following information:
- a. A statement that the pipeline was abandoned in compliance with section 43-02-03-29.
 - b. The type of fluid used to purge the pipeline.
4. Above ground pipeline markers shall be placed and maintained over each buried underground gas gathering pipeline or portion thereof at the discretion of the director when necessary to protect public health and safety. The markers shall contain at least the following on a background of sharply contrasting color: the word "Warning", "Caution", or "Danger" followed by the fluid transported pipeline, the name of the operator, and current emergency phone number.

The requirement to submit a geographical information system layer is not to be construed to be required on buried piping utilized to connect flares, tanks, treaters, or other equipment located entirely within the boundary of a well site or production facility.

History: Amended effective January 1, 1983; January 1, 2006; April 1, 2014; October 1, 2016; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-29.1. Crude oil and produced water underground gathering pipelines.

1. Application of section. This section is applicable to all underground gathering pipelines designed for or capable of transporting crude oil or produced water from an oil and gas production facility for the purpose of disposal, storage, or for sale purposes. If these rules differ from the pipeline manufacturer's prescribed installation and operation practices, the pipeline manufacturer's prescribed installation and operation practices take precedence.

The requirements in this section are not applicable to flow lines, injection pipelines, pipelines operated by an enhanced recovery unit for enhanced recovery unit operations, or on piping utilized to connect wells, tanks, treaters, flares, or other equipment located entirely within the boundary of a well site or production facility.

If these rules differ from or are preempted by federal requirements on federally regulated pipelines, the federal rules take precedence. The pipeline owner shall provide sufficient documentation to the director confirming the pipeline is federally regulated.

2. Definitions. The terms used throughout this section apply to this section only.
 - a. "Crude oil or produced water underground gathering pipeline" means an underground gathering pipeline designed or intended to transfer crude oil or produced water from a production facility for disposal, storage, or sale purposes.
 - b. "New construction" means a new gathering pipeline installation project or an alteration or reroute of an existing gathering pipeline where the location, composition, size, design temperature, or design pressure changes.
 - c. "Pipeline repair" is the work necessary to restore a pipeline system to a condition suitable for safe operations that does not change the design temperature or pressure.
 - d. "Gathering system" is a group of connected pipelines which have been designated as a gathering system by the operator. A gathering system must have a unique name and must be interconnected.
 - e. "In-service date" is the first date fluid was transported down the underground gathering pipeline for disposal, storage, or sale purposes after construction.
3. Notifications.
 - a. The underground gathering pipeline owner shall notify the ~~commission~~, as provided by the director, at least seven days prior to commencing new construction of any underground gathering pipeline. The notice of intent to construct automatically expires after one year and for any project not built within one year; a new notice of intent to construct must be submitted.
 - (1) The notice of intent to construct a crude oil or produced water underground gathering pipeline must include the following:
 - (a) The proposed date construction is scheduled to begin.
 - (b) A statement that the director will be verbally notified approximately forty-eight hours prior to commencing the construction.
 - (c) A geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the proposed route of the pipeline from the point of origin to the termination point.

(d) The proposed underground gathering pipeline design drawings, including all associated above ground equipment.

[1] The proposed pipeline composition, specifications (i.e. size, weight, grade, wall thickness, coating, and standard dimension ratio).

[2] The type of fluid to be transported.

[3] The method of testing pipeline integrity (e.g. hydrostatic or pneumatic test) prior to placing the pipeline into service.

[4] Proposed burial depth of the pipeline.

[5] The location and type of all road crossings (i.e. bored and cased or bored only).

[6] The location of all environmentally sensitive areas, such as wetlands, streams, or other surface waterbodies that the pipeline may traverse, if applicable.

b. The underground gathering pipeline owner shall file a sundry notice (form 4 or form provided by the ~~commission~~director) with the director providing notifying notification ~~the commission~~ of any underground gathering pipeline system or portion thereof that has been removed from service for more than one year.

c. If damage occurs to any underground gathering pipeline, flow line, or other underground equipment used to transport crude oil, natural gas, carbon dioxide, or water produced in association with oil and gas, during construction, operation, maintenance, repair, or abandonment of an underground gathering pipeline, the responsible party shall verbally notify the director immediately.

d. The pipeline owner shall file a sundry notice (form 4 or form provided by the ~~commission~~director) within thirty days of the in-service date reporting the date of first service.

4. Design and construction.

The following applies to newly constructed crude oil and produced water underground gathering pipelines, including tie-ins to existing systems:

a. Underground gathering pipelines must be devoid of leaks and constructed of materials resistant to external corrosion and to the effects of transported fluids.

b. Underground gathering pipelines must be designed in a manner that allows for line maintenance, periodic line cleaning, and integrity testing.

c. Installation crews must be trained in all installation practices for which they are tasked to perform.

- d. Underground gathering pipelines must be installed in a manner that minimizes interference with agriculture, road and utility construction, the introduction of secondary stresses, and the possibility of damage to the pipe. Tracer wire must be buried with any nonconductive pipe installed.
- e. Unless the manufacturer's installation procedures and practices provide guidance, pipeline trenches must be constructed to allow for the pipeline to rest on undisturbed native soil and provide continuous support along the length of the pipe. Trench bottoms must be free of rocks greater than two inches in diameter, debris, trash, and other foreign material not required for pipeline installation. If a trench bottom is over excavated, the trench bottom must be backfilled with appropriate material and compacted prior to installation of the pipe to provide continuous support along the length of the pipe.

The width of the trench must provide adequate clearance on each side of the pipe. Trench walls must be excavated to ensure minimal sluffing of sidewall material into the trench. Subsoil from the excavated trench must be stockpiled separately from previously stripped topsoil.

- f. Underground gathering pipelines that cross a township, county, or state graded road must be bored unless the responsible governing agency specifically permits the owner to open cut the road.
- g. No pipe or other component may be installed unless it has been visually inspected at the site of installation to ensure that it is not damaged in a manner that could impair its strength or reduce its serviceability.
- h. The pipe must be handled in a manner that minimizes stress and avoids physical damage to the pipe during stringing, joining, or lowering in. During the lowering in process the pipe string must be properly supported so as not to induce excess stresses on the pipe or the pipe joints or cause weakening or damage to the outer surface of the pipe.
- i. When a trench for an underground gathering pipeline is backfilled, it must be backfilled in a manner that provides firm support under the pipe and prevents damage to the pipe and pipe coating from equipment or from the backfill material. Sufficient backfill material must be placed in the haunches of the pipe to provide long-term support for the pipe. Backfill material that will be within two feet of the pipe must be free of rocks greater than two inches in diameter and foreign debris. Backfilling material must be compacted as appropriate during placement in a manner that provides support for the pipe and reduces the potential for damage to the pipe and pipe joints.
- j. Cover depths must be a minimum of four feet [1.22 meters] from the top of the pipe to the finished grade. The cover depth for an undeveloped governmental section line must be a minimum of six feet [1.83 meters] from the top of the pipe to the finished grade.

- k. Underground gathering pipelines that traverse environmentally sensitive areas, such as wetlands, streams, or other surface waterbodies, must be installed in a manner that minimizes impacts to these areas. Any horizontal directional drilling plan prepared by the owner or required by the director, must be filed with the ~~commission~~director, prior to the commencement of horizontal directional drilling.
 - l. Clamping or squeezing as a method of connecting any produced water underground gathering pipeline must be approved by the director. Prior to clamping or squeezing the pipeline, the owner shall file a sundry notice (form 4 or form provided by the ~~commission~~director) with the director and obtain approval of the clamping or squeezing plan. The notice must include documentation that the pipeline can be safely clamped or squeezed as prescribed by the manufacturer's specifications. Any damaged portion of a produced water underground gathering pipeline that has been clamped or squeezed must be replaced before it is placed into service.
5. Pipeline reclamation.
- a. When utilizing excavation for pipeline installation, repair, or abandonment, topsoil must be stripped, segregated from the subsoils, and stockpiled for use in reclamation. "Topsoil" means the suitable plant growth material on the surface; however, in no event shall this be deemed to be more than the top twelve inches [30.48 centimeters] of soil or deeper than the depth of cultivation, whichever is greater.
 - b. The pipeline right-of-way must be reclaimed as closely as practicable to original condition. All stakes, temporary construction markers, cables, ropes, skids, and any other debris or material not native to the area must be removed from the right-of-way and lawfully disposed of.
 - c. During right-of-way reclamation all subsoils and topsoils must be returned in proper order to as close to the original depths as practicable. Right-of-way reclamation shall be completed within one year of the pipeline being placed into service. An extension may be granted at the director's discretion.
 - d. The reclaimed right-of-way soils must be stabilized to prevent excessive settling, sluffing, cave-ins, or erosion.
 - e. The crude oil and produced water underground gathering pipeline owner is responsible for their right-of-way reclamation and maintenance until such pipeline is released by the ~~commission~~director from the pipeline bond pursuant to section 43-02-03-15.
6. Inspection.
- All newly constructed crude oil and produced water underground gathering pipelines must be inspected by third-party independent inspectors to ensure the pipeline is installed as prescribed by the manufacturer's specifications and in accordance with the requirements of this section. A list of all third-party independent inspectors and a

description of each independent inspector's qualifications, certifications, experience, and specific training must be provided to the ~~commission~~ director upon request. A person may not be used to perform inspections unless that person has been trained and is qualified in the phase of construction to be inspected. The third-party independent inspector may not be an employee of the gathering pipeline owner/operator or the contractor hired to construct and install the pipeline. The number of third-party independent inspectors shall be adequate for the size of the pipeline construction project to ensure proper pipeline installation.

7. Associated pipeline facility.

No associated above ground equipment may be installed less than five hundred feet [152.40 meters] from an occupied dwelling unless agreed to in writing by the owner of the dwelling or authorized by order of the commission.

All associated above ground equipment used to store crude oil or produced water must be devoid of leaks and constructed of materials resistant to the effects of crude oil, produced water, brines, or chemicals that may be contained therein. The above materials requirement may be waived by the director for tanks presently in service and in good condition. Unused tanks and associated above ground equipment must be removed from the site or placed into service, within a reasonable time period, not to exceed one year.

Dikes must be erected around all produced water or crude oil tanks at any new facility prior to placing the associated underground gathering pipeline into service. Dikes must be erected and maintained around all crude oil or produced water tanks or above ground equipment, when deemed necessary by the director. Dikes as well as the base material under the dikes and within the diked area must be constructed of sufficiently impermeable material to provide emergency containment. Dikes must be of sufficient dimension to contain the total capacity of the largest tank plus one day's fluid throughput. The required capacity of the dike may be lowered by the director if the necessity therefor can be demonstrated to the director's satisfaction. Discharged crude oil or produced water must be properly removed and may not be allowed to remain standing within or outside of any diked areas.

The underground gathering pipeline owner shall take steps to minimize the amount of solids stored at the pipeline facility, although the remediation of such material may be allowed onsite, if approved by the director.

8. Underground gathering pipeline as built.

The owner of any underground gathering pipeline placed into service after July 31, 2011, shall file with the director, as prescribed by the director, within one hundred eighty days of placing into service, a geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the location of all associated above ground equipment and the pipeline centerline from the point of origin to the termination point. An affidavit of completion shall accompany each layer

containing the following information:

- a. A third-party inspector certificate that the pipeline was constructed and installed in compliance with section 43-02-03-29.1.
- b. The outside diameter, minimum wall thickness, composition, and maximum temperature rating of the pipeline, or any other specifications deemed necessary by the director.
- c. The maximum allowable operating pressure of the pipeline.
- d. The specified minimum yield strength and internal yield pressure of the pipeline if applicable to the composition of pipe.
- e. The type of fluid that will be transported in the pipeline.
- f. Pressure and duration to which the pipeline was tested prior to placing into service.
- g. The minimum pipeline depth of burial from the top of the pipe to the finished grade.
- h. In-service date.
- i. Leak protection and monitoring methods that will be utilized after in-service date.
- j. Any leak detection methods that have been prepared by the owner.
- k. The name of the pipeline gathering system and any other separately named portions thereof.
- l. Accuracy of the The geographical information system layer must be within twenty feet of horizontal accuracy.

9. Operating requirements.

The maximum operating pressure for all crude oil and produced water underground gathering pipelines may not exceed the manufacturer's specifications of the pipe or the manufacturer's specifications of any other component of the pipeline, whichever is less. The maximum operating pressure of any portion of an underground gathering system may not exceed the test pressure from the most recent integrity test demonstration following modification or repair for which it was tested.

The crude oil or produced water underground gathering pipeline must be equipped with adequate controls and protective equipment to prevent the pipeline from operating above the maximum operating pressure.

10. Leak protection, detection, and monitoring.

All crude oil and produced water underground gathering pipeline owners shall file with the ~~commission~~ director any leak protection and monitoring plan prepared by the owner or required by the director, pursuant to North Dakota Century Code section 38-08-27.

If any leak detection plan has been prepared by the owner, it must be submitted to the director.

All crude oil or produced water underground gathering pipeline owners shall develop and maintain a data sharing plan and file a copy with the director. The plan must provide for real-time sharing of data between the operator of the production facility, the crude oil or produced water underground gathering pipeline owner, and the operator at the point or points of disposal, storage, or sale. If a discrepancy in the shared data is observed, the party observing the data discrepancy shall notify all other parties and action must be taken to determine the cause. A record of all data discrepancies must be retained by the crude oil or produced water underground gathering pipeline owner. If requested, copies of such records must be filed with the ~~commission~~director.

11. Spill response.

All crude oil and produced water underground gathering pipeline owners shall maintain a spill response plan during the service life of any crude oil or produced water underground gathering pipeline. The plan should detail the necessary steps for an effective and timely response to a pipeline spill. The spill response plan should be tailored to the specific risks in the localized area. Response capabilities should address access to equipment and tools necessary to respond, as well as action steps to protect the health and property of impacted landowners, citizens, and the environment.

12. Corrosion control.

- a. Underground gathering pipelines must be designed to withstand the effects of external corrosion and maintained in a manner that mitigates internal corrosion.
- b. All metallic underground gathering pipelines installed must have sufficient corrosion control.
- c. All coated pipe must be electronically inspected prior to placement using coating deficiency (i.e. holiday) detectors to check for any faults not observable by visual examination. The holiday detector must be operated in accordance with manufacturer's instructions and at a voltage level appropriate for the electrical characteristics of the pipeline system being tested. During installation all joints, fittings, and tie-ins must be coated with materials compatible with the coatings on the pipe. Coating materials must:
 - (1) Be designed to mitigate corrosion of the buried pipeline;
 - (2) Have sufficient adhesion to the metal surface to prevent under film migration of moisture;
 - (3) Be sufficiently ductile to resist cracking;
 - (4) Have enough strength to resist damage due to handling and soil stress;
 - (5) Support any supplemental cathodic protection; and

- (6) If the coating is an insulating type, have low moisture absorption and provide high electrical resistance.
 - d. Cathodic protection systems must meet or exceed the minimum criteria set forth in the National Association of Corrosion Engineers standard practice Control of External Corrosion on Underground or Submerged Metallic Piping Systems.
 - e. If internal corrosion is anticipated or detected, the underground gathering pipeline owner shall take prompt remedial action to correct any deficiencies, such as increased pigging, use of corrosion inhibitors, internal coating of the pipeline (e.g. an epoxy paint or other plastic liner), or a combination of these methods. Corrosion inhibitors must be used in sufficient quantity to protect the entire part of the pipeline system that the inhibitors are designed to protect.
13. Pipeline integrity.

A crude oil or produced water underground gathering pipeline owner may not operate a pipeline unless it has been pressure tested and demonstrated integrity. In addition, an owner may not return to service a portion of pipeline which has been repaired, replaced, relocated, or otherwise changed until it has demonstrated integrity.

- a. The crude oil and produced water underground gathering pipeline owner shall notify the ~~commission director~~ at least forty-eight hours prior to commencement of any pipeline integrity test to allow a representative of the ~~commission director~~ to witness the testing process and results. The notice must include the pipeline integrity test procedure.
- b. The crude oil and produced water underground gathering pipeline owner shall submit within sixty days of the underground gathering pipeline being placed into service the integrity test results which must include the following:
 - (1) The name of the pipeline gathering system and any other separately named portions thereof;
 - (2) The date of the test;
 - (3) The duration of the test;
 - (4) The length of pipeline which was tested;
 - (5) The maximum and minimum test pressure;
 - (6) The starting and ending pressure;
 - (7) A copy of the appropriately scaled chart recorder or digital log results;
 - (8) A geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the location of the centerline of the portion of the pipeline that was tested;

- (9) A copy of the test procedure used; and
 - (10) A third-party inspector certificate summarizing the pipeline has been pressure tested and whether it demonstrated integrity, including the identification of any leaks, ruptures, or other integrity issues encountered, and an explanation for any substantial pressure gain or losses during the integrity test, if applicable.
- c. All crude oil and produced water underground gathering pipeline owners shall maintain a pipeline integrity demonstration plan during the service life of any crude oil or produced water underground gathering pipeline. The director, for good cause, may require a pipeline integrity demonstration on any crude oil or produced water underground gathering pipeline.

14. Pipeline repair.

Each owner, in repairing an underground gathering pipeline or pipeline system, shall ensure that the repairs are made in a manner that prevents damage to persons or property.

An owner may not use any pipe, valve, or fitting, for replacement or repair of an underground gathering pipeline, unless it is designed to meet the maximum operating pressure.

- a. At least forty-eight hours prior to any underground gathering pipeline repair or replacement, the underground gathering pipeline owner shall notify the ~~commission, as provided by the~~ director, except in an emergency.
- b. Within one hundred eighty days of repairing or replacing any underground gathering pipeline the owner of the pipeline shall file with the director a geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the location of the centerline of the repaired or replaced pipeline and an affidavit of completion containing the following information:
 - (1) A statement that the pipeline was repaired in compliance with section 43-02-03-29.1.
 - (2) The reason for the repair or replacement.
 - (3) The length of pipeline that was repaired or replaced.
 - (4) Pressure and duration to which the pipeline was tested prior to returning to service.
- c. Clamping or squeezing as a method of repair for any produced water underground gathering pipeline must be approved by the director. Prior to clamping or squeezing the pipeline, the owner shall file a sundry notice (form 4) with the director and obtain approval of the clamping or squeezing plan. The notice must

include documentation that the pipeline can be safely clamped or squeezed as prescribed by the manufacturer's specifications. If an emergency requires clamping or squeezing, the owner or the owner's agent shall obtain verbal approval from the director and the notice shall be filed within seven days of completing the repair. Any damaged portion of a produced water underground gathering pipeline that has been clamped or squeezed must be replaced before it is returned to service.

15. Pipeline abandonment.

- a. At least forty-eight hours prior to abandoning any underground gathering pipeline, the underground gathering pipeline owner shall notify the director verbally.
- b. When an underground gathering pipeline or any part of such pipeline is abandoned as defined under subsection 1 of North Dakota Century Code section 38-08-02 after March 31, 2014, the owner shall leave such pipeline in a safe condition by conducting the following:
 - (1) Disconnect and physically isolate the pipeline from any operating facility, associated above ground equipment, or other pipeline.
 - (2) Cut off the pipeline or the part of the pipeline to be abandoned below surface at pipeline level.
 - (3) Purge the pipeline with fresh water, air, or inert gas in a manner that effectively removes all fluid.
 - (4) Remove cathodic protection from the pipeline.
 - (5) Permanently plug or cap all open ends by mechanical means or welded means.
 - (6) The site of all associated above ground equipment must be reclaimed pursuant to section 43-02-03-34.1.
 - (7) If the bury depth is not at least three feet below final grade, such portion of pipe must be removed.
- c. Within one hundred eighty days of completing the abandonment of an underground gathering pipeline the owner of the pipeline shall file with the director a geographical information system layer utilizing North American datum 83 geographic coordinate system (GCS) and in an environmental systems research institute (Esri) shape file format showing the location of the pipeline centerline and an affidavit of completion containing the following information:
 - (1) A statement that the pipeline was abandoned in compliance with section 43-02-03-29.1.
 - (2) The type of fluid used to purge the pipeline.
 - (3) The date of pipeline abandonment.

(4) The length of pipeline abandoned.

16. Pipeline markers.

- a. Above ground pipeline markers shall be placed and maintained over each buried crude oil or produced water underground gathering pipeline or portion thereof at the discretion of the director when necessary to protect public health and safety. The markers shall contain at least the following on a background of sharply contrasting color: the word "Warning", "Caution", or "Danger" followed by the name of the fluid transported pipeline, the name of the operator, and current emergency phone number.

History: Effective October 1, 2016; amended effective April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-31. Well log, completion, and workover reports.

After the plugging of a well, a plugging record (form 7) shall be filed with the director. After the completion of a well, recompletion of a well in a different pool, or drilling horizontally in an existing pool, a completion report (form 6 or form provided by the ~~commission~~ director) shall be filed with the director. In no case shall oil or gas be transported from the lease prior to the filing of a completion report unless approved by the director. The operator shall cause to be run an open hole electrical, radioactivity, or other similar log, or combination of open hole logs, of the operator's choice, from which formation tops and porosity zones can be determined. The operator shall cause to be run a gamma ray log from total depth to ground level elevation of the well bore. Within six months of reaching total depth and prior to completing the well, the operator shall cause to be run a cement evaluation log from which the presence and quality of bonding of cement can be determined in every well in which production or intermediate casing has been set. The initial cement evaluation log shall be run without the addition of pressure at surface, except at depths where the cement evaluation tool may need appropriate pressure applied to function properly. The obligation to log may be waived or postponed by the director if the necessity therefor can be demonstrated to the director's satisfaction. Waiver will be contingent upon such terms and conditions as the director deems appropriate. All logs run shall be available to the director at the well site prior to proceeding with plugging or completion operations. All logs run shall be submitted to the director free of charge. Logs shall be submitted as one digital TIFF (tagged image file format) copy and one digital LAS (log ASCII) formatted copy, or a format approved by the director. In addition, operators shall file one copy of drill stem test reports and charts, formation water analyses, core analyses, geologic reports, and noninterpretive lithologic logs or sample descriptions if compiled by the operator.

All information furnished to the director on permits, except the operator name, well name, location, permit date, confidentiality period, spacing or drilling unit description, spud date, rig contractor, central tank battery number, any production runs, or volumes injected into an injection well, shall be kept confidential from the ~~time date~~ a request by the operator is received in writing until the six-month confidentiality period has ended. The six-month period shall commence on the date the well is completed or the date the written request is received, whichever

is earlier. If the written request accompanies the application for permit to drill or is filed after permitting but prior to spudding, the six-month period shall commence on the date the well is spudded. The director may release such confidential completion and production data to health care professionals, emergency responders, and state, federal, or tribal environmental and public health regulators if the director deems it necessary to protect the public's health, safety, and welfare.

All information furnished to the director on recompletions, restimulation wells, or reentries, except the operator name, well name, location, permit date, confidentiality period, spacing or drilling unit description, spud date, rig contractor, any production runs, or volumes injected into an injection well, shall be kept confidential for not more than six months if requested by the operator in writing. The six-month period shall commence on the date the well is completed, recompleted, or restimulated or the date ~~the well was approved for recompletion or reentry~~ a request by the operator is received in writing, whichever is earlier. Any information furnished to the director prior to approval of the recompletion, restimulation, or reentry shall remain public.

Approval must be obtained on a well sundry notice form (form 4) from the director prior to perforating or recompleting a well in a pool other than the pool in which the well is currently permitted.

After the completion of any remedial work, or attempted remedial work such as plugging back or drilling deeper, acidizing, shooting, formation fracturing, squeezing operations, setting liner, perforating, reperforating, or other similar operations not specifically covered herein, a report on the operation shall be filed on a sundry notice (form 4) with the director. The report shall present a detailed account of all work done and the date of such work; the daily production of oil, gas, and water both prior to and after the operation; the shots per foot, size, and depth of perforations; the quantity of sand, crude, chemical, or other materials employed in the operation; and any other pertinent information or operations which affect the original status of the well and are not specifically covered herein.

Upon the installation of pumping equipment on a flowing well, or change in type of pumping equipment designed to increase productivity in a well, the operator shall submit a sundry notice (form 4) of such installation. The notice shall include all pertinent information on the pump and the operation thereof including the date of such installation, and the daily production of the well prior to and after the pump has been installed.

All forms, reports, logs, and other information required by this section shall be submitted within thirty days after the completion of such work, although a completion report shall be filed immediately after the completion or recompletion of a well in a pool or reservoir not then covered by an order of the commission.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1990; May 1, 1992; May 1, 1994; July 1, 1996; September 1, 2000; July 1, 2002; January 1, 2006; January 1, 2008; April 1, 2010; April 1, 2012; October 1, 2016; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-34.1. Reclamation of surface.

1. Within a reasonable time, but not more than one year, after a well is plugged, or if a permit expires, has been canceled or revoked, or a treating plant or saltwater handling facility is decommissioned, the site, access road, and other associated facilities constructed shall be reclaimed as closely as practicable to original condition pursuant to North Dakota Century Code section 38-08-04.12. Prior to site reclamation, the operator or the operator's agent shall file a well sundry notice form(~~form 4~~) or facility sundry notice with the director and obtain approval of a reclamation plan. The operator or operator's agent shall provide a copy of the proposed reclamation plan to the surface owner at least ten days prior to commencing the work unless waived by the surface owner. Verbal approval to reclaim the site may be given. The notice shall include:
 - a. The name and address of the reclamation contractor;
 - b. The name and address of the surface owner and the date when a copy of the proposed reclamation plan was provided to the surface owner;
 - c. A description of the proposed work, including topsoil redistribution and reclamation plans for the access road and other associated facilities; and
 - d. Reseeding plans, if applicable.

The commission will mail a copy of the approved notice to the surface owner.

All equipment, waste, and debris shall be removed from the site. All pipelines shall be purged and abandoned pursuant to section 43-02-03-29.1. Flow lines shall be removed if buried less than three feet [91.44 centimeters] below final contour.

2. Gravel or other surfacing material shall be removed, stabilized soil shall be remediated, and the site, access road, and other associated facilities constructed for the well, treating plant, or saltwater handling facility shall be reshaped as near as practicable to original contour.
3. The stockpiled topsoil shall be evenly distributed over the disturbed area and, where applicable, the area revegetated with native species or according to the reasonable specifications of the appropriate government land manager or surface owner.
4. A site assessment may be required by the director, before and after reclamation of the site.
5. Within thirty days after completing any reclamation, the operator shall file a sundry notice with the director reporting the work performed.
6. The director, with the consent of the appropriate government land manager or surface owner, may waive the requirement of reclamation of the site and access road after a well is plugged or treating plant or saltwater handling facility is decommissioned. The ~~operator~~ director shall record documentation of the waiver with the recorder of the county in which the site or road is located.

History: Effective April 1, 2012; amended effective April 1, 2014; October 1, 2016; April 1, 2018; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-35. Conversion of mineral wells to freshwater wells.

Any person desiring to convert a mineral well to a freshwater well, as provided by North Dakota Century Code section 61-01-27, shall file an application for approval with the commission. The application must include, but is not limited to, the following:

1. If the well is to be used for other than individual domestic and livestock use, a conditional water permit issued by the ~~state water commission~~ department of water resources.
2. An affidavit by the person desiring to obtain approval for the conversion stating that such person has the authority and assumes all liability for the use and plugging of the proposed freshwater well.
3. The procedure which will be followed in converting the mineral well to a freshwater well.
4. If the well is not currently plugged and abandoned, an affidavit must be executed by the operator of the well indicating that the parties responsible for plugging the mineral well have no objection to the conversion of the mineral well to a freshwater well.

If the commission, after notice and hearing, determines that a mineral well may safely be used as a freshwater well, the commission may approve the conversion.

History: Amended effective April 30, 1981; January 1, 1983; September 1, 1987; July 1, 2002; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-41. Subsurface pressure tests.

The operator shall make a subsurface pressure test on the discovery well of any new pool hereafter discovered and shall report the results thereof to the director within thirty days after the completion of such discovery well. Drill stem test pressures are acceptable. After the discovery of a new pool, each operator shall make additional subsurface pressure tests as directed by the director or provided for in field rules. All tests shall be made by a person qualified by both training and experience to make such tests and with an approved subsurface pressure instrument. All wells shall remain completely shut in for at least forty-eight hours prior to the test. The subsurface determination shall be obtained as close as possible to the ~~midpoint~~ top of the formation containing the productive interval of the reservoir. The report of the reservoir pressure test shall be filed on form 9a.

The director may shut in any well for failure to make such test as herein above described until such time as a satisfactory test has been made or satisfactory explanation given.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; September 1, 2000; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-44. Metered casinghead gas.

All casinghead gas produced shall be reported monthly to the director in units of one thousand cubic feet [28.32 cubic meters] computed at a pressure of fourteen and seventy-three hundredths pounds per square inch absolute [1034.19 grams per square centimeter] at a base temperature of sixty degrees Fahrenheit [15.56 degrees Celsius]. Associated gas production may not be transported from a well premises or central production facility until its volume has been determined through the use of properly calibrated measurement equipment. All measurement equipment and volume determinations must conform to American gas association standards. The operator of a well shall notify the director within thirty days on a well sundry form of the connection date to a gas gathering system, the metering equipment, transporter, and purchaser of the gas. Any gas produced and used on lease for fuel purposes or flared ~~must~~ may be estimated or measured and shall be reported on a gas production report (form 5b) in accordance with section 43-02-03-52.1. Meters used to determine the used on lease or flared gas volumes should be installed and calibrated in accordance with American Petroleum Institute or American Gas Association standards or to the meter manufacturer's recommendations.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1992; July 1, 1996; September 1, 2000; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-48.1. Central production facility - Commingling of production.

1. The director shall have the authority to approve requests to consolidate production equipment at a central location. The applicant shall provide all information requested by the director. The director may impose such terms and conditions as the director deems necessary.
2. Commingling of oil and gas production from two or more wells in a central production facility is prohibited unless approved by the director. There are two types of central production facilities in which production from two or more wells is commingled that may be approved by the director.
 - a. A central production facility in which all production going into the facility has common ownership. For purposes of this section, production with common ownership is defined as production from wells that do not have diverse ownership.

b. A central production facility in which production going into the facility has diverse ownership. For purposes of this section, production with diverse ownership is defined as production from wells that are:

- (1) In different drilling or spacing units; and
- (2) Which have different mineral ownership.

3. The commingling of oil and gas production in a central production facility from two or more wells having common ownership may be approved by the director provided the production from each well can be accurately determined at reasonable intervals. Commingling of oil and gas production in a central production facility from two or more wells having diverse ownership may be approved by the director provided the production from each well is accurately metered prior to commingling. Commingling of oil and gas production in a central production facility from two or more wells having diverse ownership that is not metered prior to commingling may only be approved by the commission after notice and hearing.

a. Common ownership central production facility. The application for permission to commingle oil, and gas, or both in a central production facility with common ownership must be submitted on a facility sundry notice (~~form 4~~) and shall include the following:

- (1) A plat or map showing thereon the location of the central facility and the name, well file number, and location of each well and flow lines from each well that will produce into the facility.
- (2) A schematic drawing of the facility which diagrams the testing, treating, routing, and transferring of production. All pertinent items such as treaters, tanks, flow lines, valves, meters, recycle pumps, etc., should be shown.
- (3) An affidavit executed by a person who has knowledge indicating that common ownership as defined above exists.
- (4) An explanation of the procedures or method to be used to determine, accurately, individual well production at periodic intervals. Such procedures or method shall be performed at least once every three months.

~~(4)~~(5) List of all allocation meters to be used and the meter type.

A copy of all tests are to be filed with the director on a central tank battery well test form 44 within thirty days after the tests are completed.

b. Diverse ownership central production facility. The application for permission to commingle oil, and gas, or both in a central production facility having diverse ownership must be submitted on a facility sundry notice (~~form 4~~) and shall include the following:

- (1) A plat or map showing thereon the location of the central facility and the name, well file number, and location of each well, and flow lines from each well that will produce into the facility.
- (2) A schematic drawing of the facility which diagrams the testing, treating, routing, and transferring of production. All pertinent items such as treaters, tanks, flow lines, valves, meters, recycle pumps, etc., should be shown.
- (3) The name of the manufacturer, size, and type of meters to be used. The meters must be proved at least once every three months and the results reported to the director within thirty days following the completion of the test.
- (4) An explanation of the procedures or method to be used to determine, accurately, individual well production at periodic intervals. Such procedures or method shall be performed monthly.
- (4)(5) List of all allocation meters to be used and the meter type.

A copy of all tests are to be filed with the director on a central tank battery well test form 44 within thirty days after the tests are completed.

4. The commingling of produced water in a central production facility from two or more wells may be approved by the director provided the produced water production can be accurately determined at reasonable intervals. The application for permission to commingle water in a central production facility must be submitted on a facility sundry notice and shall include the following:
 - a. A plat or map showing thereon the location of the central facility and the name, well file number, and location of each well, and flow lines from each well that will produce into the facility.
 - b. A schematic drawing of the facility which diagrams the testing, treating, routing, and transferring of production. All pertinent items such as treaters, tanks, flow lines, valves, meters, recycle pumps, etc., should be shown.
 - c. An affidavit executed by a person who has knowledge indicating that common ownership as defined above exists; or an indication that it is not common ownership.
 - d. An explanation of the procedures or method to be used to determine, accurately, individual well production at periodic intervals. Such procedures or method shall be performed quarterly for common ownership and monthly for diverse ownership central production facilities.
 - e. List of all allocation meters to be used and the meter type.
- 4.5. Any changes to a previously approved central production facility must be reported on a facility sundry notice (~~form 4~~) and approved by the director.

History: Effective May 1, 1992; amended effective September 1, 2000; May 1, 2004; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-51.1. Treating plant permit requirements.

1. The treating plant permit application shall be submitted on form 1tp and shall include at least the following information:
 - a. The name and address of the operator.
 - b. An accurate plat certified by a registered surveyor showing the location of the proposed treating plant and the center of the site with reference to true north and the nearest lines of a governmental section. The plat shall also include the latitude and longitude of the center of the proposed treating plant location to the nearest tenth of a second, and the ground elevation. The plat shall also depict the outside perimeter of the treating plant and verification that the site is at least five hundred feet [152.4 meters] from an occupied dwelling.
 - c. A schematic drawing of the proposed treating plant site, drawn to scale, detailing all facilities and equipment, including the size, location, and purpose of all tanks, the height and location of all dikes, the location of all flow lines, and the location of the topsoil stockpile. It shall also include the proposed road access to the nearest existing public road and the authority to build such access.
 - d. Cut and fill diagrams.
 - e. An affidavit of mailing identifying each owner of any permanently occupied dwelling within one-quarter mile of the proposed treating plant and certifying that such owner has been notified of the proposed treating plant.
 - f. Appropriate geological data on the surface geology and its suitability for fluid containment.
 - g. Schematic drawings of the proposed diking and containment, including calculated containment volume and all areas underlain by a synthetic liner.
 - h. Monitoring plans and leak detection for all buried or partially buried structures and any concrete structure upon which waste or product is in direct contact.
 - i. The capacity and operational capacity of the treating plant.
 - j. A narrative description of the process and how the waste and recovered product streams travel through the treating plant.
 - k. A review of the surficial aquifers within one mile of the proposed treating plant site or surface facilities.

1. Any other information required by the director to evaluate the proposed treating plant or site.
2. Permits may contain such terms and conditions as the director deems necessary.
3. Any permit issued under this section may be revoked by the commission after notice and hearing if the permittee fails to comply with the terms and conditions of the permit, any directive of the director, or any applicable rule or statute. Any permit issued under this section may be suspended by the director for good cause.
4. Permits are transferable only with approval of the director.
5. Permits may be modified by the director.
6. A permit shall automatically expire one year after the date it was issued, unless dirtwork operations have commenced to construct the site. The director may extend a treating plant permit for up to one year upon request.
7. If the treating plant is abandoned and reclaimed, the permit shall expire and be of no further force and effect.

History: Effective April 1, 2014; amended effective October 1, 2016; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-51.3. Treating plant construction and operation requirements.

1. Before construction of a treating plant, treating plant site, or access road begins, the operator shall file with the director a surety bond or cash bond conditioned upon compliance with all laws, rules and regulations, and orders of the commission. The bond amount shall be specified in the commission order authorizing the treating plant and shall be based upon the location, type, and capacity of the plant, processing method, and plan of operation for all plant waste approved in the commission order and shall be payable to the industrial commission. In no case shall the bond amount be set lower than fifty thousand dollars.
2. Treating plant sites and associated facilities or appropriate parts thereof shall be fenced if required by the director. All fences installed within or around any facility must be constructed in a manner that promotes emergency ingress and egress.
3. All storage tanks shall be kept free of leaks and in good condition. Storage tanks for saltwater shall be constructed of, or lined with, materials resistant to the effects of saltwater. Open tanks are allowed if approved by the director.
4. All waste, recovered solids, and recovered fluids shall be stored and handled in such a manner to prevent runoff or migration offsite.
5. Dikes of sufficient dimension to contain the total capacity of the maximum volume stored must be erected and maintained around all storage and processing tanks. Dikes

as well as the base within the diked area must be lined with a synthetic impermeable liner to provide emergency containment unless waived by the director. All processing equipment shall be underlain by a synthetic impermeable material, unless waived by the director. The site shall be sloped and diked to divert surface drainage away from the site. The operations of the treating plant shall be conducted in such a manner as to prevent leaks, spills, and fires. All discharged fluids and wastes shall be promptly and properly removed and shall not be allowed to remain standing within the diked area or on the treating plant premises. All such incidents shall be properly cleaned up, subject to approval by the director. All such reportable incidents shall be promptly reported to the director and a detailed account of any such incident must be filed with the director in accordance with section 43-02-03-30.

6. A perimeter berm, at least six inches [15.24 centimeters] in height, must be constructed of sufficiently impermeable material to provide emergency containment around the treating plant and to divert surface drainage away from the site if deemed necessary by the director.
7. Within thirty days following construction or modification of a treating plant, a sundry notice (form 4) must be submitted detailing the work and the dates commenced and completed. The sundry notice must be accompanied by a schematic drawing of the treating plant site drawn to scale, detailing all facilities and equipment, including the size, location, and purpose of all tanks; the height and location of all dikes as well as a calculated containment volume; all areas underlain by a synthetic liner; any leak detection system installed; the location of all flowlines; the stockpiled topsoil location and its volume; and the road access to the nearest existing public road.
8. Immediately upon the commencement of treatment operations, the operator shall notify the director in writing of such date.
9. The operator of a treating plant shall provide continuing surveillance and conduct such monitoring and sampling as the director may require.
10. Storage pits, waste pits, or other earthen storage areas shall be prohibited unless authorized by an appropriate regulatory agency. A copy of said authorization shall be filed with the director.
11. Burial of waste at any treating plant site shall be prohibited. All residual water and waste, fluid or solid, shall be disposed of in an authorized facility.
12. The operator shall take steps to minimize the amount of residual waste generated and the amount of residual waste temporarily stored onsite. Solid waste shall not be stockpiled onsite unless authorized by an appropriate regulatory agency. A copy of said authorization shall be filed with the director.
13. If deemed necessary by the director, the operator shall cause to be analyzed any waste substance contained onsite. Such chemical analysis shall be performed by a certified laboratory and shall adequately determine if chemical constituents exist which would categorize the waste as hazardous by department of environmental quality standards.

14. Treating plants shall be constructed and operated so as not to endanger surface or subsurface water supplies or cause degradation to surrounding lands and shall comply with section 43-02-03-28 concerning fire hazards and proximity to occupied dwellings.
15. The beginning of month inventory, the amount of waste received and the source of such waste, the volume of oil sold, the amount and disposition of water, the amount and disposition of residue waste, fluid or solid, and the end of month inventory for each treating plant shall be reported monthly on form 5p with the director on or before the first day of the second succeeding month, regardless of the status of operations.
16. Records necessary to validate information submitted on form 5p shall be maintained in North Dakota.
17. All proposed changes to any treating plant must have prior approval by the director.
18. The operator shall comply with all applicable rules and orders of the commission. All rules in this chapter governing oil well sites shall also apply to any treating plant site.
19. The operator shall immediately cease operations if so ordered by the director for failure to comply with the statutes of North Dakota, commission rules or orders, or directives of the director.

History: Effective April 1, 2014; amended effective October 1, 2016; April 1, 2018; April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-53.1. Saltwater handling facility permit requirements.

1. A permit for construction of a saltwater handling facility, saltwater handling facility site, or access road must be approved by the director prior to construction. The saltwater handling facility permit application must be submitted on a facility sundry notice (~~form 4~~) and include at least the following information:
 - a. The name and address of the operator.
 - b. An accurate plat certified by a registered surveyor showing the location of the proposed saltwater handling facility and the center of the site with reference to true north and the nearest lines of a governmental section. The plat also must include the latitude and longitude of the center of the proposed saltwater handling facility location to the nearest tenth of a second and the ground elevation. The plat also must depict the outside perimeter of the saltwater handling facility and verification that the site is at least five hundred feet [152.4 meters] from an occupied dwelling.
 - c. A schematic drawing of the proposed saltwater handling facility site, drawn to scale, detailing all facilities and equipment, including the size, location, and purpose of all tanks, the height and location of all dikes, the location of all flow lines, and the location and thickness of the stockpiled topsoil. The schematic

drawing also must include the proposed road access to the nearest existing public road and the authority to build such access.

- d. Cut and fill diagrams.
 - e. Schematic drawings of the proposed diking and containment, including calculated containment volume and all areas underlain by a synthetic liner, as well as a description of all containment construction material.
 - f. The anticipated daily throughput of the saltwater handling facility.
 - g. A review of the surficial aquifers within one mile of the proposed treating plant site or surface facilities.
 - h. Any other information required by the director to evaluate the proposed saltwater handling facility or site.
2. Permits may contain such terms and conditions as the director deems necessary.
 3. Any permit issued under this section may be revoked by the commission after notice and hearing if the permittee fails to comply with the terms and conditions of the permit, any directive of the director, or any applicable rule or statute. Any permit issued under this section may be suspended by the director for good cause.
 4. Permits are transferable only with approval of the director.
 5. Permits may be modified by the director.
 6. A permit automatically expires one year after the date it was issued, unless dirtwork operations have commenced to construct the site. The director may extend a saltwater handling facility permit for up to one year upon request.
 7. If the saltwater handling facility is abandoned and reclaimed, the permit expires and is of no further force and effect.

History: Effective October 1, 2016; amended effective April 1, 2020; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

43-02-03-55. Abandonment of wells, treating plants, underground gathering pipelines, or saltwater handling facilities - Suspension of drilling.

1. The removal of production equipment or the failure to produce oil or gas for one year constitutes abandonment of the well. The removal of production equipment or the failure to produce water from a source well for one year constitutes abandonment of the well. The removal of injection equipment or the failure to use an injection well for one year constitutes abandonment of the well. The removal of monitoring equipment from or the failure to use a subsurface observation well for one year constitutes abandonment of the well. The failure to plug a stratigraphic test hole within one year of reaching total

depth constitutes abandonment of the well. The removal of treating plant equipment or the failure to use a treating plant for one year constitutes abandonment of the treating plant. The removal of saltwater handling facility equipment or the failure to use a saltwater handling facility for one year constitutes abandonment of the saltwater handling facility. An abandoned well must be plugged and its site must be reclaimed, an abandoned treating plant must be removed and its site must be reclaimed, and an abandoned saltwater handling facility must be removed and its site must be reclaimed, pursuant to sections 43-02-03-34 and 43-02-03-34.1. A well not producing oil or natural gas in paying quantities for one year may be placed in abandoned-well status pursuant to subsection 1 of North Dakota Century Code section 38-08-04. If an injection well is inactive for extended periods of time, the commission may, after notice and hearing, require the injection well to be plugged and abandoned. If an underground gathering pipeline is inactive for seven years, the commission may, after notice and hearing, require the pipeline to be properly abandoned pursuant to sections 43-02-03-29 and 43-02-03-29.1.

2. The director may waive for one year the requirement to plug and reclaim an abandoned well by giving the well temporarily abandoned status for good cause. ~~This status may only be given to wells that are to be used for purposes related to the production of oil and gas within the next seven years.~~ If a well is given temporarily abandoned status, the well's perforations must be isolated, the integrity of its casing must be proven, and its casing must be sealed at the surface, all in a manner approved by the director. The director may extend a well's temporarily abandoned status and each extension may be approved for up to one year. A fee of one hundred dollars shall be submitted for each application to extend the temporary abandonment status of any well. A surface owner may request a hearing to review of a well temporarily abandoned for at least seven years pursuant to subsection 1 of North Dakota Century Code section 38-08-04. This Temporarily abandoned status for oil and gas wells may only be given to wells that are to be used for purposes related to the production of oil and gas within the next seven years.
3. The director may approve an oil well for enhanced oil recovery potential status if the subject oil well was completed with surface casing set and cemented to properly isolate the Fox Hills formation, additional strings of casing are properly cemented to adequately protect and isolate all formations containing water, oil, or gas or any combination of these, protect the pipe through salt sections encountered, and isolate the uppermost sand of the Dakota group, and the director has deemed the subject well to have a potential use in an enhanced oil recovery project. If a well is given enhanced oil recovery potential status, the well's perforations must be isolated, the integrity of its casing must be proven, and its casing must be sealed at the surface, all in a manner approved by the director. A surface owner may request a hearing to review a well that has been on enhanced oil recovery potential status for at least twelve years, pursuant to subsection 1 of North Dakota Century Code section 38-08-04.
34. In addition to the waiver in subsection 2, the director may also waive the duty to plug and reclaim an abandoned well for any other good cause found by the director. If the director exercises this discretion, the director shall set a date or circumstance upon

which the waiver expires.

45. The director may approve suspension of the drilling of a well. If suspension is approved, a plug must be placed at the top of the casing to prevent any foreign matter from getting into the well. When drilling has been suspended for thirty days, the well, unless otherwise authorized by the director, must be plugged and its site reclaimed pursuant to sections 43-02-03-34 and 43-02-03-34.1.

History: Amended effective April 30, 1981; January 1, 1983; May 1, 1990; May 1, 1992; August 1, 1999; January 1, 2008; April 1, 2010; April 1, 2012; April 1, 2014; October 1, 2016; April 1, 2018; April 1, 2020; April 1, 2022; _____.

General Authority
NDCC 38-08-04

Law Implemented
NDCC 38-08-04

CHAPTER 43-02-08
STRIPPER WELL AND STRIPPER WELL PROPERTY DETERMINATION

43-02-08-01. Definitions.

The terms used throughout this chapter have the same meaning as in chapter 43-02-03 and North Dakota Century Code chapters 38-08 and 57-51.1, except:

1. "Commercial quantities" means production exceeding in value current operating costs.
2. "Condensate recovered in nonassociated production" means a liquid hydrocarbon recovered from a well classified as a gas well by the commission.
3. "Maximum efficient rate" means the maximum economic rate of production of oil which can be sustained under prudent operations, using sound engineering practices, without loss of ultimate recovery.
4. "Operator" means any person who owns a fee interest or an interest in an oil and gas leasehold, and has the right to produce oil therefrom.
5. "Qualifying period" means any preceding consecutive twelve-month period beginning after December 31, 1972, that the qualified maximum total production from a well or property did not exceed the production levels as specified in subsection 2 of section 43-02-08-03.
6. "Well depth":
 - a. For a vertical or directional well means the lowest measured depth (measured in feet from the kelly bushing) producing from the pool during the qualifying period. In the event there is more than one vertical or directional well on a property producing from the same pool during the qualifying period, "well depth" means the average of the lowest measured depths producing from the pool of all vertical and directional wells in the property.
 - b. For a horizontal well means the measured depth of the terminus of the horizontal lateral (measured in feet from the kelly bushing) producing from the pool during the qualifying period. In the event there is more than one horizontal well on a property producing from the same pool during the qualifying period, "well depth" means the average measured depth of the termini of the horizontal laterals producing from the pool of all of the horizontal wells on the property.

History: Effective August 1, 1986; amended effective September 1, 1987; May 1, 1994; May 1, 2004; April 1, 2014, _____.

General Authority:
NDCC 38-08-04(~~5~~)(1)(e)

Law Implemented:
NDCC 38-08-04(4)(1)(d)
NDCC 57-51.1-01

43-02-08-02. Application for stripper well or stripper well property determination.

Any operator desiring to classify a well or property as a stripper well or a stripper well property for purposes of exempting production from the imposition of the oil extraction tax as provided under North Dakota Century Code chapter 57-51.1 shall file an application for stripper well or stripper well property determination with the director and obtain a determination certifying the well or property as a stripper well property. The applicant has the burden of establishing entitlement to stripper well or stripper well property status and shall submit all data necessary for a determination by the director.

The application must include the following:

1. The name and address of the applicant and the name and address of the person operating the well, if different.
2. The legal description of the well or property for which a determination is requested.
3. The well name and number and legal description of the oil-producing well or each oil-producing well on the property during the qualifying period and at the time of application.
4. The depth of all perforations (measured in feet from ground level) from the producing well or each producing well on the property during the qualifying period which produces from the same pool.
5. Designation of the well or property which the applicant requests to be certified as a stripper well or a stripper well property. Such designation must be accompanied by sufficient documentation for the director to determine (as set forth in section 43-02-08-02.1) that the well or property the applicant desires to be certified as a stripper well or a stripper well property constitutes a well or property as specified in North Dakota Century Code section 57-51.1-01.
6. The monthly production of the oil-producing well or each oil-producing well on the property during the qualifying period.

If the application does not contain sufficient information to make a determination, the director may require the applicant to submit additional information.

History: Effective August 1, 1986; amended effective September 1, 1987; May 1, 1992; May 1, 1994; July 1, 1996; August 1, 1999; July 1, 2002; April 1, 2014 _____.

General Authority:
NDCC 38-08-04~~(5)~~(1)(e)

Law Implemented:
NDCC 38-08-04~~(4)~~(1)(d)
NDCC 57-51.1-01

43-02-08-02.1. Property determination.

The director recognizes the following as properties:

1. A unit.

2. A spacing unit.
3. Contiguous tracts within a lease.
4. A single well drilled and completed prior to July 1, 2013, is considered a single well stripper well property. A single well drilled and completed after June 30, 2013, is considered a single well stripper well.

Any well or portion of a property previously qualified as a stripper well property may not be redesignated to be included in another property unless approved by the commission after notice and hearing or unless such property lies within a unitized common source of supply.

All wells on the property must have been completed prior to July 1, 2013. A well completed after July 1, 2013, cannot be added to an existing property.

History: Effective September 1, 1987; amended effective May 1, 1992; May 1, 2004; April 1, 2014; October 1, 2016 _____.

General Authority:
NDCC 38-08-04(5)(1)(e)

Law Implemented:
NDCC 38-08-04(4)(1)(d)
NDCC 57-51.1-01

43-02-08-03. Director shall determine stripper well or stripper well property status.

1. Upon receipt of an application for stripper well or stripper well property determination, the director shall review the application, information, or comments submitted by any interested person and all relevant information contained in the books, files, and records of the commission.
2. Stripper well or stripper well property status will be determined on the basis of the qualified maximum total production of oil from the well or property. In order to qualify production from a well or property as maximum total production, the oil-producing well or each oil-producing well on the property must have been maintained at the maximum efficient rate of production or is not capable of exceeding the production thresholds below if the well or property had been maintained at the maximum efficient rate of production throughout the twelve-month qualifying period.
 - a. A property meets the requirements of a stripper well property if the qualified maximum total production of oil from the property excluding condensate did not exceed the following:
 - (1) Production from a well with a well depth of six thousand feet [1828.8 meters] or less did not exceed an average of ten barrels per day;
 - (2) Production from a well with a well depth of more than six thousand feet [1828.8 meters] but not more than ten thousand feet [3048.0 meters] did not exceed an average of fifteen barrels per day; or
 - (3) Production from a well with a well depth of more than ten thousand feet [3048.0 meters] did not exceed an average of thirty barrels per day.

- b. A well meets the requirements of a stripper well if the qualified maximum total production of oil from the well, excluding condensate, did not exceed the following:
- (1) Production from a well with a well depth of six thousand feet [1828.8 meters] or less did not exceed an average of ten barrels per day;
 - (2) Production from a well with a well depth of more than six thousand feet [1828.8 meters] but not more than ten thousand feet [3048.0 meters] did not exceed an average of fifteen barrels per day;
 - (3) Production from a well outside the Bakken and Three Forks formations with a well depth of more than ten thousand feet [3048.0 meters] did not exceed an average of thirty barrels per day; or
 - (4) Production from a well in the Bakken or Three Forks formations with a well depth of more than ten thousand feet [3048.0 meters] did not exceed an average of thirty-five barrels per day.
3. Within thirty days of the receipt of a complete application for stripper well or stripper well property status, or a reasonable time thereafter, the director shall either grant or deny the application.
4. If an application for stripper well or stripper well property status is denied, the director shall enter a written determination denying the application and specify the basis for the denial. If an application for stripper well or stripper well property status is granted, the director shall enter a written determination granting the application. A copy of the determination either granting or denying the application must be forwarded by the director by mail to the applicant and all other persons submitting comments. It is the obligation of the applicant to notify and advise the state tax commissioner, all other operators in the well or property, and the purchaser of the crude oil of the determination of the director.

History: Effective August 1, 1986; amended effective September 1, 1987; May 1, 1992; July 1, 1996; May 1, 2004; April 1, 2014; October 1, 2016; _____.

General Authority:
NDCC 38-08-04(5)(1)(e)

Law Implemented:
NDCC 38-08-04(4)(1)(d)
NDCC 57-51.1-01

43-02-08-04. Applicant adversely affected may submit amended application - Procedure.

Any applicant adversely affected by a determination of the director made under sections 43-02-08-02 through 43-02-08-03 may within thirty days after the entry of such a determination submit an amended application. If an amended application is submitted, the director shall issue a determination of stripper well or stripper well property status within thirty days of the receipt of the amended application or a reasonable time thereafter.

History: Effective August 1, 1986; amended effective September 1, 1987; May 1, 1992; April 1, 2014; _____.

General Authority:
NDCC 38-08-04(~~5~~)(1)(e)

Law Implemented:
NDCC 38-08-04(~~4~~)(1)(d)
NDCC 57-51.1-01

43-02-08-05. Person adversely affected may petition the commission - Procedure.

Any person adversely affected by a determination of the director of either an application or an amended application for stripper well or stripper well property status made under sections 43-02-08-02 through 43-02-08-03 may within thirty days after the entry of such a determination petition the commission for a hearing in accordance with the provisions of North Dakota Century Code chapter 38-08 and chapter 43-02-03.

History: Effective August 1, 1986; amended effective September 1, 1987; May 1, 1992; April 1, 2014; _____.

General Authority:
NDCC 38-08-04(~~5~~)(1)(e)

Law Implemented:
NDCC 38-08-04(~~4~~)(1)(d)
NDCC 57-51.1-01

CHAPTER 43-02-10
CERTIFICATION OF SECONDARY AND TERTIARY RECOVERY PROJECTS -
DETERMINATION OF INCREMENTAL PRODUCTION

43-02-10-02. Application to certify a qualifying secondary recovery project.

Any unit operator desiring to certify a secondary recovery project as a "qualifying secondary recovery project" for purposes of eligibility for the tax incentive provided in North Dakota Century Code chapter 57-51.1 shall submit to the director an application for certification of a qualifying secondary recovery project. The unit operator has the burden of establishing entitlement to certification and shall submit all data necessary to enable the commission to determine whether the project is a qualifying secondary recovery project, and is entitled to the ~~tax reduction and tax exemption provided in North Dakota Century Code sections 57-51.1-02 and section 57-51.1-03 respectively.~~

History: Effective May 1, 1992; amended effective July 1, 1996; July 1, 2002, _____.

General Authority:
NDCC 38-08-04

Law Implemented:
NDCC 38-08-04
NDCC 57-51.1-01

43-02-10-03. Commission certification of secondary recovery project.

Upon the filing of an application for certification of a qualifying secondary recovery project, the commission shall promptly set a date for hearing. In determining whether a secondary recovery project shall be certified as a "qualifying secondary recovery project", the commission shall determine:

1. The amount of crude oil which would have been recovered from the unit source of supply if the secondary recovery project had not been commenced; and
- ~~2. Whether, for the purposes of a tax reduction, the secondary recovery project has achieved for six consecutive months an average production level of at least twenty five percent above the amount of production which would have been recovered from the unit source of supply (as determined in subsection 1) if the secondary recovery project had not been commenced; and~~
- 3-2. Whether, for the purposes of a tax exemption and subsequent thereto the tax reduction, there has been incremental production.

History: Effective May 1, 1992; _____.

General Authority:
NDCC 38-08-04

Law Implemented:
NDCC 38-08-04
NDCC 57-51.1-01

43-02-10-04. Application to certify a qualifying tertiary recovery project.

Any unit operator desiring to certify a tertiary recovery project as a "qualifying tertiary recovery project" for purposes of eligibility for the tax incentive provided in North Dakota Century Code chapter 57-51.1 shall submit to the director an application for certification of a qualifying tertiary recovery project. The unit operator has the burden of establishing entitlement to certification and shall submit all data necessary to enable the commission to determine whether the project is a qualifying tertiary recovery project, and is entitled to the ~~tax reduction and tax exemption~~ provided in North Dakota Century Code ~~sections 57-51.1-02 and section 57-51.1-03~~ respectively.

History: Effective May 1, 1992; amended effective July 1, 1996; July 1, 2002; _____.

General Authority:
NDCC 38-08-04

Law Implemented:
NDCC 38-08-04
NDCC 57-51.1-01

43-02-10-05. Commission certification of tertiary recovery project.

Upon the filing of an application for certification of a qualifying tertiary recovery project, the commission shall promptly set a date for hearing. In determining whether a tertiary recovery project shall be certified as a "qualifying tertiary recovery project", the commission shall determine:

1. Whether the tertiary recovery project meets the requirements of the tertiary recovery methods specified in ~~subsection 8~~ subsection 6 of North Dakota Century Code section 57-51.1-01;
2. The amount of crude oil which would have been recovered from the unit source of supply if the tertiary recovery project had not been commenced;
3. Whether the tertiary recovery project has achieved for at least one month an average production level of at least fifteen percent above the amount of production which would have been recovered from the unit source of supply (as determined in subsection 2) if the tertiary recovery project had not been commenced; and
4. Whether, for the purposes of the tax exemption ~~and subsequent thereto~~ ~~the tax reduction~~, there has been incremental production.

The commission will, upon application or its own motion, have a hearing to determine whether the project operator continues to operate the unit as a qualifying tertiary recovery project.

History: Effective May 1, 1992; amended effective September 1, 2000; _____.

General Authority:
NDCC 38-08-04

Law Implemented:
NDCC 38-08-04
NDCC 57-51.1-01

Section 43-02-15 is hereby created:

**CHAPTER 43-02-15
CERTIFICATION OF RESTIMULATION WELLS**

Section

43-02-15-01	Definitions
43-02-15-02	Application to Certify a Restimulation Well
43-02-15-03	Director Certification of Restimulation Well
43-02-15-04	Applicant Adversely Affected May Submit Amended Application - Procedure
43-02-15-05	Person Adversely Affected May Petition the Commission - Procedure
43-02-15-06	Books and Records to Be Kept to Substantiate Reports

43-02-15-01. Definitions.

The terms used throughout this chapter have the same meaning as in chapter 43-02-03 and North Dakota Century Code chapters 38-08 and 57-51.1.

History: _____.

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01

General Authority: NDCC 38-08-04(1)(e)
Law Implemented: NDCC 38-08-04(1)(e), 57-51.1-01

43-02-15-02. Application to certify a restimulation well.

Any operator desiring to certify a restimulation well for the purposes of exempting production from the imposition of the oil extraction tax as provided under North Dakota Century Code chapter 57-51.1 shall submit to the director an application for certification of the well. The operator has the burden of establishing entitlement to the certification and shall submit all data necessary to enable the director to determine whether the well qualifies and is entitled to the tax reduction provided in North Dakota Century Code Section 57-51.1-03.

The application must include the following:

1. The name and address of the operator of the restimulation well, including the phone number and electronic mail address of the submitting representative.
2. The well name and number and legal description of the surface location of the well for which the certification is requested.
3. The field and pool for the well the restimulation was performed in for which the certification is requested.

4. The legal description of the spacing unit for the pool in the well the restimulation was performed in for which the certification is requested.
5. The original completion date for the pool in the well the restimulation was performed in for which the certification is requested.
6. The date(s) previous stimulations were performed in the well the restimulation was performed in for which the certification is requested.
7. Copy of the completion report for the pool in the well the restimulation was performed in for which the certification is requested, including the restimulation date and details.
8. Calculated barrels of oil per day for the most recent reporting month during which the restimulation well was produced at a maximum efficient rate for the pool in the well the restimulation was performed in for which the certification is requested.
9. Assertion that the restimulation well is not located within the exterior boundaries of a reservation, is not located on trust properties outside a reservation boundary as defined in section 57-51.2-02, and is not a straddle well located on reservation trust land as defined in section 57-51.1-07.10, unless a tribe has made an irrevocable election to opt-in to the tax reduction by providing written notice to the tax commissioner. A copy of such notice shall be included.
10. Assertion that the restimulation well is not a qualified stripper well or part of a qualified stripper well property as defined in North Dakota Century Code section 57-51.1-01.
11. Assertion that the restimulation well is not part of a qualifying secondary recovery project or qualifying tertiary recovery project as defined in North Dakota Century Code section 57-51.1-01.

The application for certification must be accompanied by sufficient documentation for the director to determine that the restimulation well constitutes a well as specified in North Dakota Century Code section 57-51.1-01. If the application does not contain sufficient information to make a determination, the director may require the applicant to submit additional information.

History: _____

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01

43-02-15-03. Director shall determine restimulation well status.

1. Upon receipt of an application for restimulation well certification, the director shall review the application, information, and all relevant information contained in the books, files, and records of the commission.

2. Restimulation well certification will be determined on the basis of the qualified calculated maximum barrels of oil per day for the most recent reporting month during which the restimulation well was produced at a maximum efficient rate for the pool in the well the restimulation was performed in. In order to qualify production from a restimulation well for the calculated barrels of oil per day, the restimulation well must have been maintained at the maximum efficient rate of production or is not capable of exceeding the production threshold if the well had been maintained at the maximum efficient rate of production throughout the qualifying reporting month.
3. Within thirty days of the receipt of a complete application for restimulation well certification, or a reasonable time thereafter, the director shall either grant or deny the application.
4. If an application for restimulation well certification is denied, the director shall enter a written determination denying the application and specify the basis for the denial. If an application for restimulation well certification is granted, the director shall enter a written determination granting the application and forward a copy to the tax commissioner. A copy of the determination either granting or denying the restimulation well certification application must be forwarded by the director to the operator. It is the obligation of the operator to notify and advise all other owners in the well and the purchaser of the crude oil of the determination of the director.

History: _____

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01

43-02-15-04. Applicant adversely affected may submit amended application - Procedure.

Any applicant adversely affected by a determination of the director made under sections 43-02-15-02 through 43-02-15-03 may within thirty days after the entry of such a determination submit an amended application. If an amended application is submitted, the director shall issue a determination either granting or denying the restimulation well certification within thirty days of the receipt of the amended application or a reasonable time thereafter.

History: _____

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01

43-02-15-05. Person adversely affected may petition the commission - Procedure.

Any person adversely affected by a determination of the director of either an application or an amended application for restimulation well certification made under sections 43-02-15-02 through 43-02-15-03 may within thirty days after the entry of such a determination petition the commission for a hearing in accordance with the provisions of North Dakota Century Code

chapter 38-08 and chapter 43-02-03.

History: _____

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01

43-02-15-06. Books and records to be kept to substantiate reports.

Any operator desiring to certify a restimulation well pursuant to this chapter shall make and keep records for a period of not less than six years, covering their operations in North Dakota from which they may be able to make and substantiate the reports required by this chapter.

History: _____

General Authority:
NDCC 38-08-04(1)(e)

Law Implemented:
NDCC 38-08-04(1)(e)
NDCC 57-51.1-01



STATE ENERGY RESEARCH CENTER

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STATE ENERGY RESEARCH CENTER ANNUAL REPORT – 2022–2023

EXECUTIVE SUMMARY

The University of North Dakota (UND) Energy & Environmental Research Center (EERC) was designated the State Energy Research Center (SERC) by the 66th Legislative Assembly of North Dakota through Senate Bill SB2249. SERC is built on the reputation of the EERC as a leader in critical energy research, with the purpose of serving the state of North Dakota by developing technologies to ensure a prosperous energy future for the state. The availability of commercially deployable technologies and concepts to serve the state in the future is dependent on continually developing innovative ideas.

As stated within SB2249, SERC was established to allow the EERC to conduct exploratory, transformational, and innovative research that advances future energy opportunities and benefits the state's economy and environment through:

- Exploratory research of technologies and methodologies that facilitate the prudent development, and clean and efficient use, of the state's energy resources.
- Greater access to energy experts for timely scientific and engineering studies to support the state's interests.
- Education and outreach related to the state's energy resources.

In 2023, North Dakota's 68th Legislative Assembly passed Senate Bill SB2161 in continuing support of SERC efforts. This bill reaffirms SERC's mandate, changes the end date of SERC activities, and raises the biennium funding limit. Funding for SERC activities, up to \$7.5 million per biennium, is provided from a small portion of the oil and gas production and extraction taxes. Currently, SERC funding has been directed by the Legislature through June 30, 2029, and activities will continue according to the scope of work with the North Dakota Industrial Commission (NDIC) through that date.

The past year of SERC activities has resulted in:

- Continuation of several exploratory research projects and activities across all facets of North Dakota energy.
- An increase in the number of new innovations and inventions.
- Supporting multiple federal proposals with a strong potential impact to the state.
- Initiating an effort to coordinate the development of a grid resiliency plan for North Dakota.

- Engaging the public and technical audiences by attending conferences and presenting on energy-related topics.
- Thirteen North Dakota students completing the Energy Hawks Program.
- Collaboration across the state's institutions of higher education.

Because SERC funding had all been allocated during the previous year, no new major fundamental research concepts were started this year. The 17 projects that were ongoing at the end of last year continued, with 13 of them being completed. Four projects remain ongoing and are anticipated to wrap up this year. New research projects will begin late summer 2023.

NDIC approved the use of SERC funds this year to support proposal development in response to three federal funding opportunities, each with a strong potential to impact North Dakota. Proposals were prepared and submitted on time. In addition, SERC funding was used to support an effort for developing a North Dakota electric grid resiliency plan to identify, evaluate, and address risks associated with potentially widespread and/or long-term electrical power outages. This project is ongoing at the time of this reporting.

Throughout the past year, EERC staff took advantage of opportunities to attend and present at conferences and meetings regarding energy-related topics. One such opportunity was speaking at the Energy Progress & Innovation Conference (EPIC) as part of promoting energy education in the state. This conference was held January 24–26, 2023, in Bismarck, North Dakota.

During the summer of 2022, 13 students, including one from North Dakota State University, one from Bismarck State college, one from Minot State University, and ten from UND, participated in the Energy Hawks Program. Three concept research projects were developed and presented by the students to EERC research staff and are summarized in this report.

The 2023 Energy Hawks Program commenced in May 2023 and includes 14 students: 13 from UND and one from Minot State University. The 2023 program includes an in-person tour of western North Dakota, a team-building workshop at the EERC, and on-site and hybrid on-site/virtual participation at the EERC. The 2023 program is scheduled to wrap up in August and, similar to previous years, the Energy Hawks will present research concept papers.

The overall efforts of SERC will continue over the coming year, beginning with a new round of fundamental research projects anticipated to start late summer 2023. As appropriate, results will be presented to NDIC, the Energy Development and Transmission Committee, and the next North Dakota Legislative Assembly.

**STATE ENERGY RESEARCH CENTER
ANNUAL REPORT – 2022–2023**

INTRODUCTION

North Dakota is blessed with abundant energy opportunities (including coal, oil and gas, wind, biofuels, and solar), exceptional agricultural production, and a highly skilled workforce. Collectively, these attributes contribute to the state being among the most productive per capita in the nation. To keep North Dakota globally competitive while focusing on resource and environmental stewardship, new and more efficient energy production technologies and methods are needed. This includes innovative energy and agricultural synergies and the creation of new value-added products from raw materials and energy by-products/wastes. Recognizing this need, the 66th Legislative Assembly of North Dakota, through Senate Bill SB2249, named the University of North Dakota (UND) Energy & Environmental Research Center (EERC) the State Energy Research Center (SERC) of North Dakota. SERC is built on the EERC’s long history as a leader in critical energy research, with the purpose of serving the state of North Dakota by developing technologies to ensure a prosperous energy future for the state.

The availability of commercially deployable technologies and concepts to serve the state in the future is dependent on continually creating innovative ideas. As shown in Figure 1, exploratory research is the first step in the process toward commercialization. Exploratory research feeds research and development, eventually leading to demonstration and commercialization.

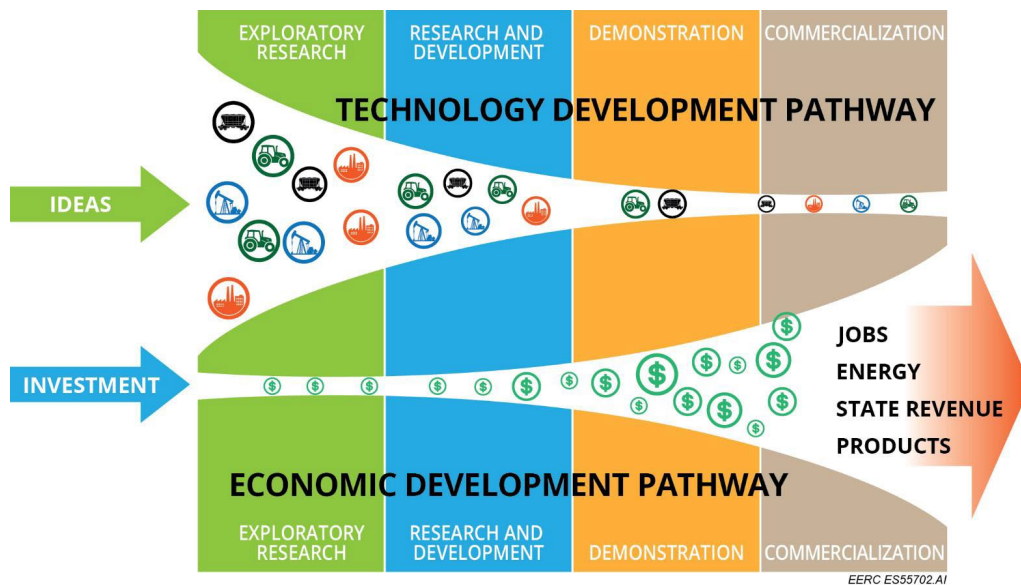


Figure 1. SERC funding is focused on accelerating exploratory research to generate new ideas and concepts. Those concepts are then advanced through additional research and development, demonstration, and commercialization with separate funding sources.

As stated within SB2249, SERC was established to allow the EERC to better support North Dakota by conducting exploratory, transformational, and innovative research that advances future energy opportunities and benefits the state's economy and environment through:

- Exploratory research of technologies and methodologies that facilitate the prudent development, and clean and efficient use, of the state's energy resources.
- Greater access to energy experts for timely scientific and engineering studies to support the state's interests.
- Education and outreach related to the state's energy resources.

In 2023, North Dakota's 68th Legislative Assembly passed Senate Bill SB2161 in continuing support of SERC efforts. This bill reaffirms SERC's mandate, changes the end date of SERC activities, and raises the biennium funding limit. Funding for SERC activities, up to \$7.5 million per biennium, is provided from a small portion of the oil and gas production and extraction taxes. Currently, SERC funding has been directed by the Legislature through June 30, 2029, and activities will continue according to the scope of work with the North Dakota Industrial Commission (NDIC) through that date.

SERC was given the mandate to provide practical, pioneering technologies and methods to support North Dakota's energy opportunities and benefit the state's economy and environment. Three corresponding work tasks were created to execute SERC objectives:

- Task 1 – Perform Exploratory Research for North Dakota Energy
- Task 2 – Provide Prompt Expertise for North Dakota
- Task 3 – Advocate and Educate Through Outreach

This report provides an update on SERC efforts conducted over the past year across these three tasks.

TASK 1 ANNUAL SUMMARY

SERC is conducting multiple projects under this task, each focused on early-stage, exploratory energy research topics with the potential to positively impact North Dakota, its industries, and its citizens. Emphasis is placed on technology and strategy development that could ultimately lead to commercial application with public and private sector partners.

The EERC is using a five-step innovation process to accelerate exploratory research and serve the state of North Dakota by developing new technology concepts. This process is designed to promote researcher productivity while decreasing unnecessary administrative burden and has proven successful in generating fundamental research concepts over the past year. Only a select number of these concepts were ultimately chosen for funding. The five-step process includes:

- 1) Generating innovative research ideas focused on North Dakota-specific needs.

- 2) Reviewing ideas using teams of technical and nontechnical research experts to assess the concepts and support their selection.
- 3) Working with selected projects to optimize their research plans for service to North Dakota.
- 4) Conducting exploratory research.
- 5) Identifying additional funding sources to further the research and development of completed projects and, when appropriate, demonstration and commercialization.

In addition to the fundamental research activities selected via the above internal solicitation process, small-scale, high-impact concepts may go through a modified review process and be selected for SERC funding based on their fundamental research merit and potential impact to the state.

The 17 ongoing projects from the prior year were continued and are listed below:

- Seismic Diffractions as a Diagnostic Indicator for Fault and Fracture Permeability in the Cap Rock of Carbon Capture and Storage (CCS) Reservoirs
- A Computational Approach to Facilitate Efficient Extraction and Isolation of PGMs (platinum group metals) and REEs (rare-earth elements)
- Low-Density Proppants from Low-Alumina Clays and Lignite Fly Ash
- Using Electrical Methods to Improve Assessment of Well Casing Integrity in North Dakota
- Development of Platinum Group Element Capabilities for Geological Materials
- North Dakota Ethanol Process Optimization via scCO₂ (supercritical carbon dioxide) Corn Oil Extraction and CCUS (carbon capture, utilization, and storage) Integration
- Metal Organic Frameworks as Cathode Materials for Next-Generation North Dakota Brine-Based Lithium–Halogen Batteries (ongoing)
- Electrochemical Extraction of Rare-Earth Elements from North Dakota Lignite and Produced Water Brine (ongoing)
- Investigation of Strategic and Practical Pathways to Establishing a Seismic Array in North Dakota
- Integrate Formation Damage Associated with Fracture Permeability Hysteresis in the Bakken Formation for a Gas EOR (enhanced oil recovery) Model

- Produced Water to Low-Cost Hydrogen and Higher Concentration Metals/REEs Solution (ongoing)
- Evaluation of Graphene-Enhanced Low-Viscosity Engine Oil for Automotive, Aerospace, and Unmanned Aerial Vehicle Applications
- 300°C Proton Exchange Electrolyte (300PEE) for NH₃
- Tunable Electrochemical Pathway for High-Purity REM (rare-earth metals) and CM (critical materials) (ongoing)
- Polar BearSM – Robust Adaptive Technology to Economically Capture Flared Gas in North Dakota
- Integrated Renewable Combined Heat and Power for Ethanol
- Examination of In Situ Hydrogen Conversion in Oil Reservoirs

Because SERC funding was all allocated during the previous year, no new major fundamental research concepts were started this year. Thirteen projects were completed this past year, resulting in four ongoing projects at the end of the year.

The EERC continued to see an increase in the number of invention disclosures this past year, with one additional disclosure submitted during the 2022–2023 year, bringing the total invention disclosures resulting from SERC activities to 13. In addition to the invention disclosure, multiple patents were filed this past year based on previous SERC invention disclosures. Other new inventions resulting from SERC projects are being examined for legal protection through patenting and other less formal forms of protection.

Highlights from the Task 1 fundamental research projects completed this past year are provided in the remainder of this section.

Seismic Diffractions as a Diagnostic Indicator for Fault and Fracture Permeability in the Cap Rock of Carbon Capture and Storage Reservoirs

Overview

This project investigated whether a relationship exists between the amplitudes of seismic diffractions and the elastic and density properties of the rocks near the diffraction point, which could support characterization of geologic fractures, as well as site selection and monitoring for geologic carbon dioxide (CO₂) storage. This was investigated using a numerical computer simulation-based approach.

Highlights

- Based on a two-dimensional elastic finite difference (2DFD) approach, subsurface models were built to simulate geologic conditions that generate seismic diffractions. The systematic approach developed for this project includes extensive quality control of the 2DFD software tool used to create the models and a step-by-step increase in the complexity of the model building.
- Five seismic model types were created with many parameter variations: homogeneous, layer over half-space, point diffractor, layer over quarter-space, and narrow fault zone (Figure 2). The seismic data generated from these models were processed and interpreted to identify the simulated seismic events present in the models. Realistic seismic diffractions were identified and analyzed.
- The results of the analysis applied to reflections and diffractions validated the initial hypothesis that rock properties affect the seismic amplitude of point and edge diffractions.
- The successful outcome of this project can be used as the basis for new algorithms to estimate elastic reservoir and cap rock properties in CO₂ storage applications. Furthermore, the application of time-lapse amplitude edge diffraction analysis can be considered for monitoring CO₂ storage and fracturing associated with enhanced geothermal or unconventional hydrocarbon production. These types of applications could create a new quantitative seismic interpretation paradigm.

Next Steps

- Identification of additional funding opportunities will continue. This project has provided the basic knowledge needed for future work.
- Opportunities to publish and present the concepts developed through this project will be investigated. At the time of this reporting, an extended abstract was being prepared for the International Meeting for Applied Geoscience and Energy (IMAGE) 2023 Conference.
- Time-lapse seismic surveys with diffraction amplitude-preserving processing and cross-equalization may allow the detection of changes in rock and fluid properties of bodies below the resolution of seismic reflections. Examples include movement or leakage of CO₂ and fracturing associated with enhanced geothermal or unconventional hydrocarbon production. Time-lapse applications of edge diffractions could be advanced by testing:
 - The amplitude-preserving characteristics of programs that separate reflections and diffractions.
 - The time-lapse cross-equalization workflows on diffractions.
 - The amplitude preservation in diffraction-imaging programs.

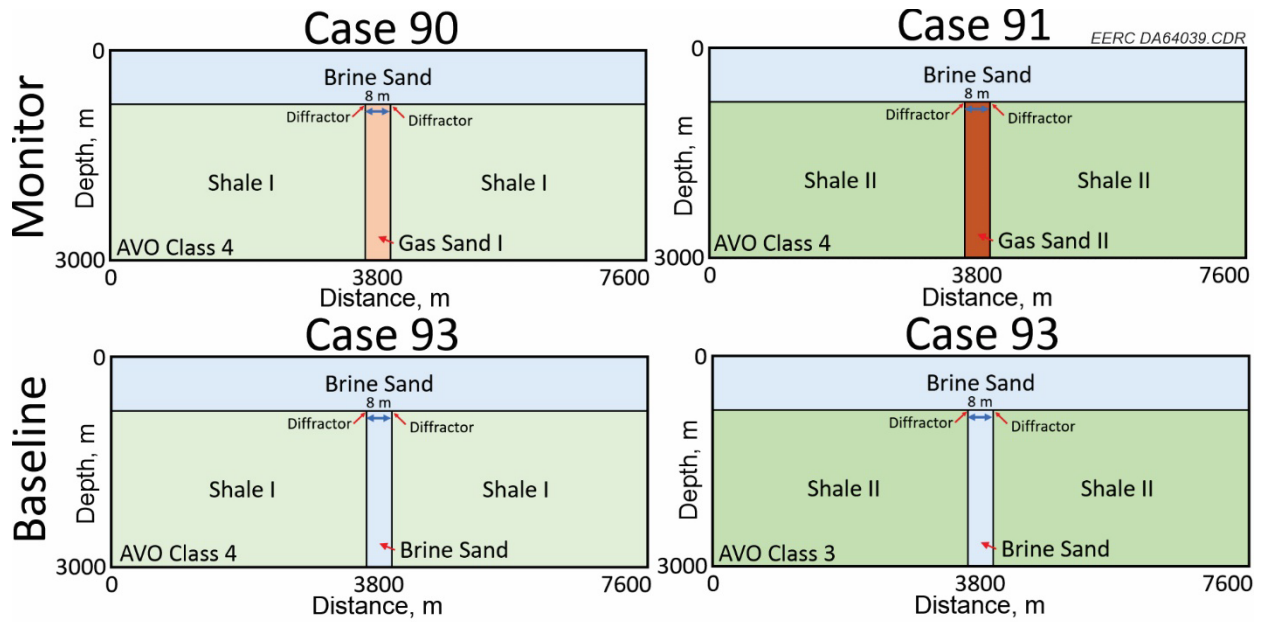


Figure 2. Image showing three cases of the narrow fault zone model that was developed.

A Computational Approach to Facilitate Efficient Extraction and Isolation of PGMs and REEs

Overview

This project developed a computational simulation approach to compute key atomic and molecular properties that can facilitate the development or fine-tuning of experimental methods to efficiently extract and isolate PGMs and REEs from North Dakota mineral resources. Specific elements used as test cases in this study included the following:

- REEs: neodymium, praseodymium, and erbium
- PGMs: platinum, rhodium, and palladium

Highlights

- Platinum sulfide was used as the model chemistry to develop a protocol that could be applied to other selected REE and PGM elements.
- An investigation of how to address relativistic effects in the modeling was conducted. Advanced software and computational resources available through UND's Computational Resource Center were used to perform calculations with different basis sets, theoretical methods, and various relativistic schemes to find a suitable approach, and a reasonable protocol for performing quantum mechanical simulations was developed.

- A computational framework was successfully developed in this study that can enable accurate simulation of REE and PGM compounds to better understand their metal-to-ligand binding interactions relevant to extraction and/or purification processes.
- The accurate descriptions of the electronic structure and predictions of geometrical and energetic properties from these simulations can assist in understanding REE and PGM modes of action in key application areas such as clean energy technologies, wind turbine magnets, and/or high-performance catalyst systems.

Next Steps

- Future work could involve developing additional theoretical methods to expand the possible molecular compounds that can be simulated to include molecular complexes relevant to extraction and/or separation/purification processes.
- In addition, efficient approaches to account for the relativistic effects in the lanthanide series REE complexes would need to be developed.
- Identification of additional funding opportunities will continue. This project has provided the basic knowledge needed for future work.

Low-Density Proppants from Low-Alumina Clays and Lignite Fly Ash

Overview

This study investigated the feasibility of producing ceramic proppants using North Dakota-based low-alumina clay and lignite fly ash with the goal of creating a low-density and high-strength proppant that can be produced in North Dakota at a lower cost than currently used ceramic proppants.

Highlights

- This study attempted to increase the sintering of the North Dakota low-alumina clay proppants by adding desilicated lignite fly ash and then using a devitrification step to make low-density proppant particles with a 10% crush strength of over 6000 psi, a bulk density much lower than that of sand, and at lower cost than currently produced ceramic proppants used in the Bakken.
- Three separate formulations of proppant material were produced for strength testing (Figure 3). Prior to testing, the proppants were sized to fit a specific targeted size range. The sample formulations included the following:
 - Fly ash from Antelope Valley Station and Hebron Brick clay
 - Fly ash from Milton R. Young Station and Hebron Brick clay
 - Bauxite and Hebron Brick clay
- The physical properties of the proppant, including sphericity, acid solubility, density, and crush resistance were measured.

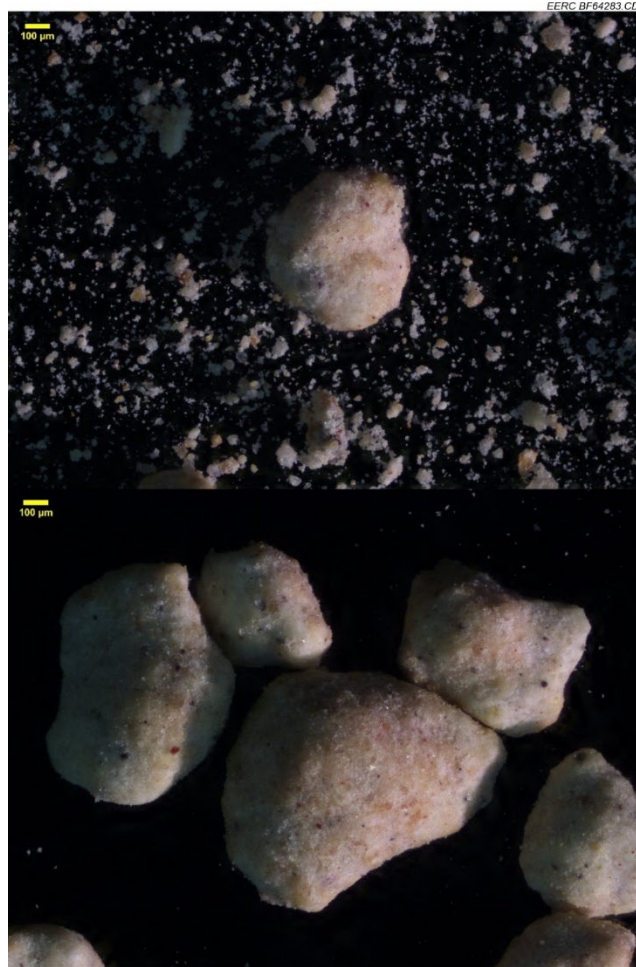


Figure 3. Optical images of proppants created for strength testing. The upper image shows the particles with a large amount of very small particles that have been shed from the larger proppants, and the lower image shows the surface of the proppants appears granular and not completely sintered.

- While three formulations of proppant material were successfully created using North Dakota clay and fly ash as components, unfortunately, when subjected to strength testing, all three samples failed to produce crush strengths required for commercial proppant.

Next Steps

- Although not successful in its original premise, lessons learned during this project led to a proposal to the U.S. Department of Energy (DOE) for developing a new chemistry and process for proppants. Additionally, technologies developed and used in this project are being applied in a separate DOE-funded project for production of composite materials, increasing speed and reducing steps in that process.
- Identification of additional funding opportunities will continue.

Using Electrical Methods to Improve Assessment of Well Casing Integrity in North Dakota

Overview

This project focused on modeling and analysis of the effects of corrosive or geomechanical stress damage to steel-cased wells in support of a new geophysical technique to rapidly and noninvasively identify wells in need of remediation or at risk for leakage. Developing the use of this geophysical technique to assist in understanding the structural integrity of these wells could provide a crucial tool for North Dakota companies in proper stewardship and environmental compliance operations.

Highlights

- The scientific simulation software COMSOL was used to generate a series of well casing models in both 2.5D (cylindrically symmetric) and 3D geometries. This project focused on the local effects of damage to well casing, so rather than model an entire long well casing, only a short segment where damage occurred was analyzed.
- Various shapes and forms of damage to the casing were modeled to represent the ways in which corrosion, fracturing, or other forms of casing damage might occur. Multiple physical parameters for the well casing, the fluid within the well, and the medium surrounding the casing were tested to analyze the effect each might have on the distribution of current within the casing and the resulting changes to the electric field that these current patterns produce.
- Modeling results generally indicated that the effects produced by damage to the well casing at this scale are relatively constrained to the area where they occur (Figure 4) but may be more noticeable in the aggregate or if they result in current flow being significantly impaired across the entire segment of casing.
- Overall, this project advances the state of the art of electromagnetic well casing modeling and analysis, improving the quantitative assessment of the data and providing valuable results to reference.

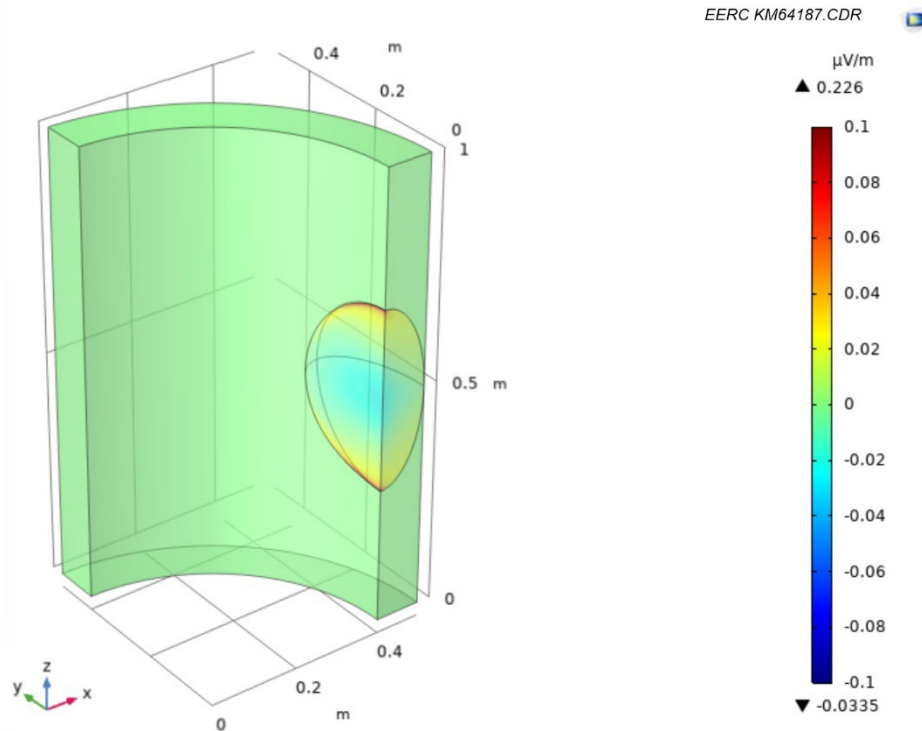


Figure 4. Difference in the electric fields caused by damage to the well casing with either a resistive fluid (air) or a conductive fluid (brine) present in the interior of the well. The changes are primarily constrained to the area of the damaged well casing segment and do not show up in the interior of the casing area or anywhere within the casing itself in any large amount.

Next Steps

- This project has provided the basic knowledge needed for future work, and identification of additional funding opportunities will continue.
- Future work will be required to upscale these results to a full well casing model, but the current project results suggest a potential way to incorporate the effects of fine-scale damage within a larger-scaled casing and reservoir model.
- The effect of a potential fluid leak that could add a layer of conductive fluid surrounding the well was shown to have a noticeable impact on the measured electric field. This additional layer is not currently considered in the state of the art and should be included in future use of the method.

Development of Platinum Group Elements and Gold Analytical Capabilities for Geologic Materials

Overview

This project focused on evaluating various geologic materials from North Dakota as potential resources for platinum group elements (PGEs). The evaluation included the development and validation of an analytical method for low-level determination of PGEs in various materials and applying the method to 60 different samples collected throughout North Dakota.

Highlights

- A new analytical technique for determining PGEs at extremely low levels in various materials was established and validated at the EERC. This technique is called the nickel sulfide fire assay (NiS-FA). The NiS-FA method for determining PGEs in geologic materials has expanded North Dakota's analytical capabilities and ability to evaluate CMs within the state.
- The method detection limits (MDLs) for all tested elements compare very well with published results obtained by other researchers using a similar method. These results clearly indicate that the NiS-FA method (Figure 5), combined with coprecipitation followed by ICP-MS analysis, is extremely sensitive.
- When comparing the average PGE values found in this study to those in the upper continental crust (UCC), the values exceeded levels in the UCC in all cases, with palladium (Pd) being 3.0× higher and platinum (Pt) 2.3× higher. Also, these two elements were detected in the largest percentage of samples compared to the other elements. Pd was detected in 93% (56 of 60) and Pt in 78% (47 of 60). The element with the least detectable levels was iridium (Ir), with reported values in 35% (21 of 60) of the samples.
- Among the 60 samples, four major types were represented by more than five samples each. When the average values are compared, the apparent trend ranging from highest concentrations of PGEs to lowest was shale > carbonaceous mudstone > coal ash > coal. Although an economic analysis was outside of the scope of this project, the data suggest that shales have the greatest potential as a PGE resource. Further analysis is needed to confirm this.
- Currently, very little information is available on PGEs in U.S. coals and even less for Fort Union lignites. The PGE data generated from this project for 60 samples of 12 different types will help fill the data gap on PGEs in coal and other materials found in North Dakota; 26 of the 60 samples were lignite coal.



Figure 5. Concentrated PGE precipitate is separated before being prepared for inductively coupled plasma–mass spectrometry (ICP–MS) analysis.

Next Steps

The following are recommendations for follow-on work:

- Although gold (Au) is not currently listed on the final CM list and there are analytical challenges with memory effects, future work could improve the NiS-FA method to better quantitate this element, since the informational values indicate the presence of Au at higher levels than the PGEs.

- Another study should be conducted to collect and analyze more shale samples to confirm the PGE levels found in this study. Drill cuttings from other state-funded projects in North Dakota could be analyzed to serve this purpose.
- The methods developed through this project could be used to support ongoing and future projects focused on CM and PGE characterization in North Dakota.
- Identification of potential funding opportunities will continue.

Integration of scCO₂-Facilitated Extraction with CCUS

Overview

This project investigated integrating scCO₂-facilitated corn oil extraction in dry mill ethanol plants in North Dakota with CCUS infrastructure. The utilization of CO₂ emissions for extraction could decrease the carbon intensity (CI) of ethanol production and maximize additional revenue streams to offset the decreasing value and market for ethanol. In addition, optimizing corn oil production in North Dakota would increase localized feedstock for industrial or energy use in the state, e.g., production of biodiesel.

Highlights

- This study explored the potential utilization of scCO₂ produced at dry mill ethanol plants. A literature review was conducted to determine process conditions, and modeling was conducted. A preliminary economic analysis was also performed. Key findings from this work include the following:
 - The solubility of corn oil in scCO₂ is linearly related to pressure but not temperature.
 - An increase in pressure is correlated with a higher extraction efficiency and lower solvent mass required for extraction (Figure 6).
 - The impact of lower scCO₂ flow rates at higher pressures outweighed the cost of compression.
 - Higher-pressure separation of scCO₂ and corn oil resulted in lower total energy requirements.
 - Initial capital estimates for the extractor were high compared to the low value of oil.
- A patent application was submitted to protect intellectual property associated with the novel approach to scCO₂-facilitated corn oil extraction developed through this project.

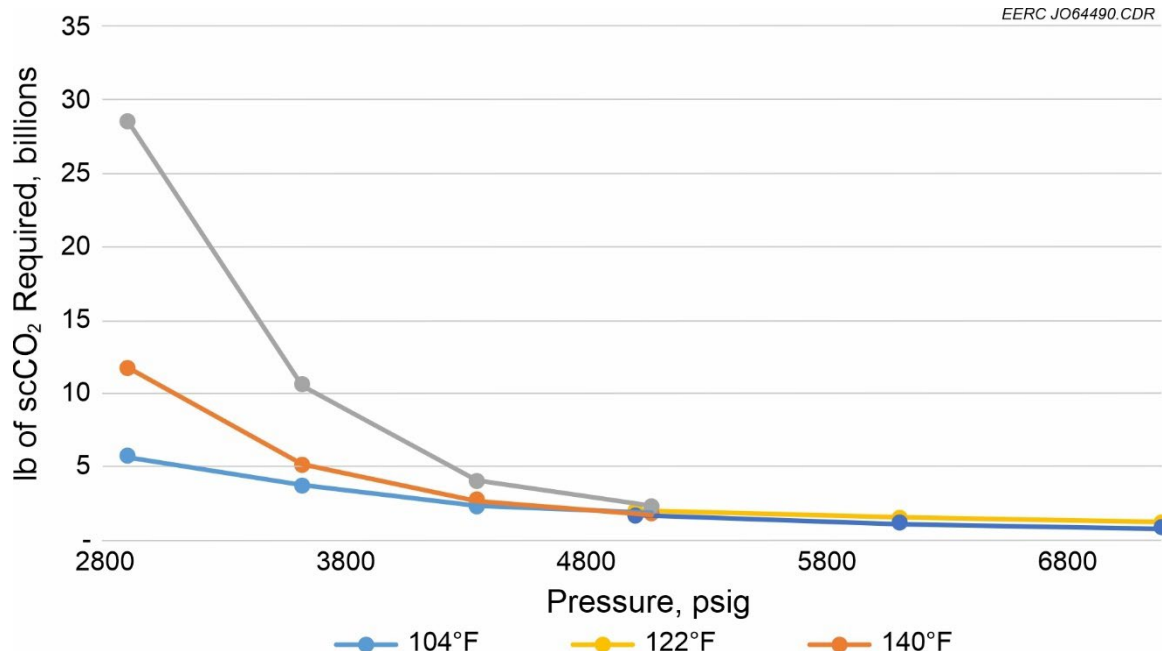


Figure 6. Simulated scCO₂ solvent requirements for corn oil extraction in dried distillers grains with solubles between 2900 and 7194 psig and 104° and 176°F.

Next Steps

- Because of the promising results of this project, the EERC is exploring vendors to perform experimental work. Data generated from these experiments could be used to update assumptions used in the modeling of this project. If follow-on work continues to look positive, North Dakota stakeholders such as the Ethanol Council and associated members could be engaged to discuss potential pilot-scale testing of the concept.
- Recommended future work includes the following:
 - Additional research is required to reduce the error margins and reevaluate the viability of the process, particularly the capital costs.
 - The separation efficiency of scCO₂ and corn oil was assumed as 100%. The assumption needs to be supported with literature or experimental values for separation efficiency.
 - The potential and implications of corn oil carryover throughout the process should be considered in future work.
 - Future studies are required to accurately determine economic feasibility on a smaller set of solubility conditions.
 - Future development of this work could involve developing additional theoretical methods to expand the possible molecular compounds that can be simulated to include molecular complexes relevant to extraction and/or separation/purification processes.

Strategic Pathways for Establishing a Permanent Statewide Seismic Monitoring Network in North Dakota

Overview

This project investigated a potential strategy and set of recommendations for establishing an enhanced seismic monitoring network in North Dakota that would satisfy current regulatory requirements, which are designed to ensure that all CCS projects are performed safely. The scope of the project included 1) a review of literature on induced seismicity, existing statewide seismic networks, and existing regulations for seismic monitoring of CCS injection activities; 2) contacts and interviews with representatives of other state networks and hardware and software vendors; and 3) development of strategies for funding and management.

Highlights

- The results of the study include a proposed design for a statewide seismic monitoring array in North Dakota, including recommendations and considerations for implementation and operations.
- A three-phase deployment of an enhanced seismic monitoring network (Seismic Array of North Dakota [SAND]) is considered, with the technical goals of establishing baseline seismicity conditions across the state (ability to measure background natural seismicity $> M1.5$ and identify and distinguish any $M2.7$ or greater induced events) in key areas (particularly in CCS project regions) and reduce uncertainty in hypocenter locations to less than 1 mile (1.6 km) to satisfy existing incentive programs in other states (e.g., California's Air Resources Board which regulates incentives for low-CI fuels in California). Figure 7 shows the proposed network.
- The cost of the proposed array was estimated to be \$1 million – \$1.5 million for purchase of equipment and installation. Annual expenses would include two or more full-time staff and software, telemetry, data-handling, and processing costs estimated at \$50,000–\$70,000.

Next Steps

- If warranted, results of this project may be discussed with North Dakota's Department of Mineral Resources.

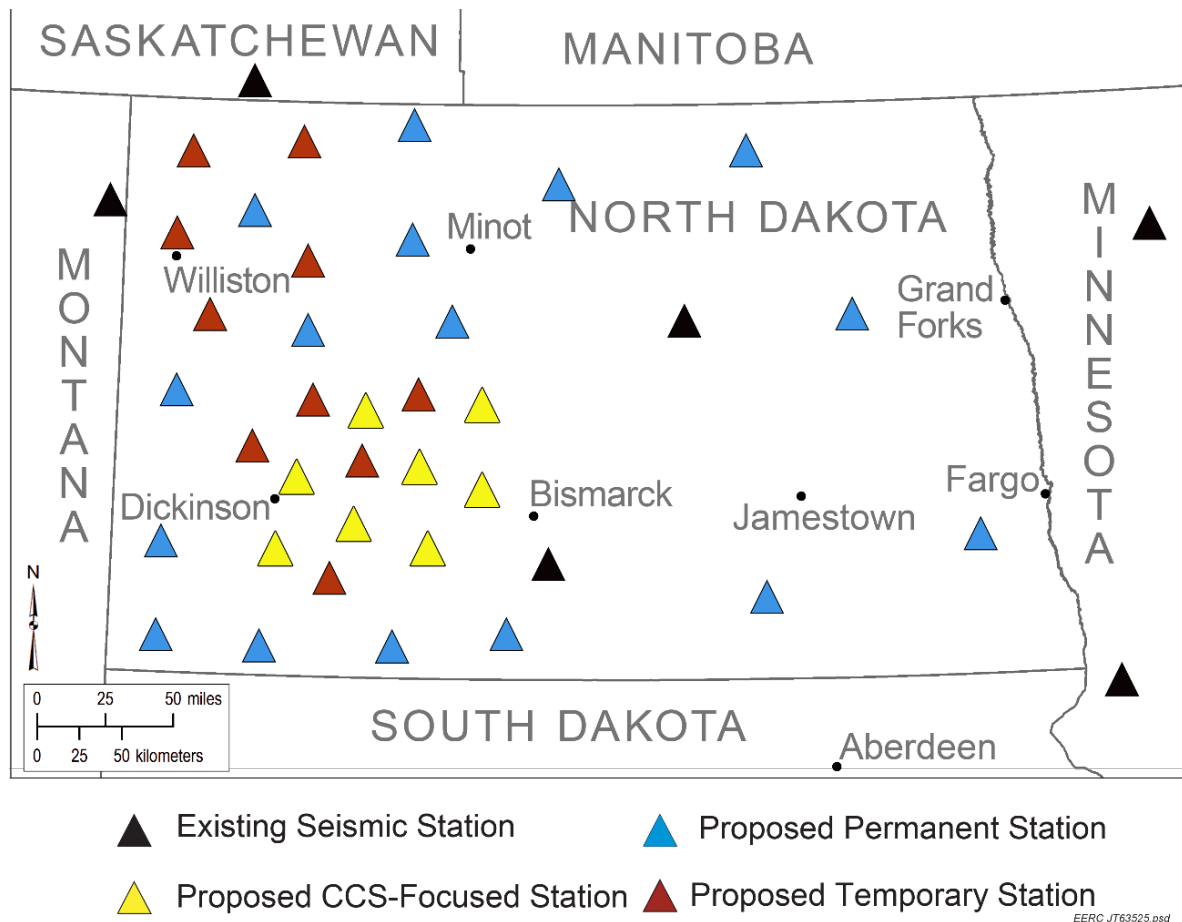


Figure 7. Possible locations of a proposed three-phase seismic monitoring network in North Dakota. Black triangles show the locations of currently operating seismometers in the region. Phase 1 (yellow triangles) would include eight stations focused in the area of CCS activities in southwestern North Dakota. Phase 2 (red triangles) would add another ten temporary, movable stations, enhancing the CCS network and potentially increasing coverage in the Williston Basin. Phase 3 (blue triangles) would add 16 permanent stations, filling out a 36-station network across North Dakota.

Developing Stress-Dependent Permeability Model Using Machine Learning Approach to Reduce Reservoir Production Forecast Uncertainty in the Bakken Formation

Overview

The main goal of this study was to develop an improved approach to correlate permeability under various reservoir conditions and geologic configurations in the Bakken and Three Forks Formations by using a machine learning (ML) approach. This approach allows a better understanding of the effects of stress on permeability, which in turn could help improve oil recovery. It should be noted that this project was previously reported in quarterly progress reports

under the title “Integrate Formation Damage Associated with Fracture Permeability Hysteresis in the Bakken Formation for a Gas EOR Model.” This is the same project with an updated title.

Highlights

- ML models developed in this project were able to predict the permeability at different net confining strengths with an acceptable level of accuracy (Figure 8).
- Using the approach in this project, a wide range of permeability–pressure coefficient data for the Bakken/Three Forks that can be used for reservoir modeling were developed. The data developed and gathered through this project could be used for additional analyses.
- Modeling permeability changes in the Bakken and Three Forks using ML was successfully demonstrated and can serve as a reliable tool to improve coupling geomechanics with reservoir modeling in unconventional reservoirs and provide a more realistic dynamic flow prediction and reliable long-term production forecast using reservoir simulation. This could support operators in designing effective EOR operations in the Bakken.

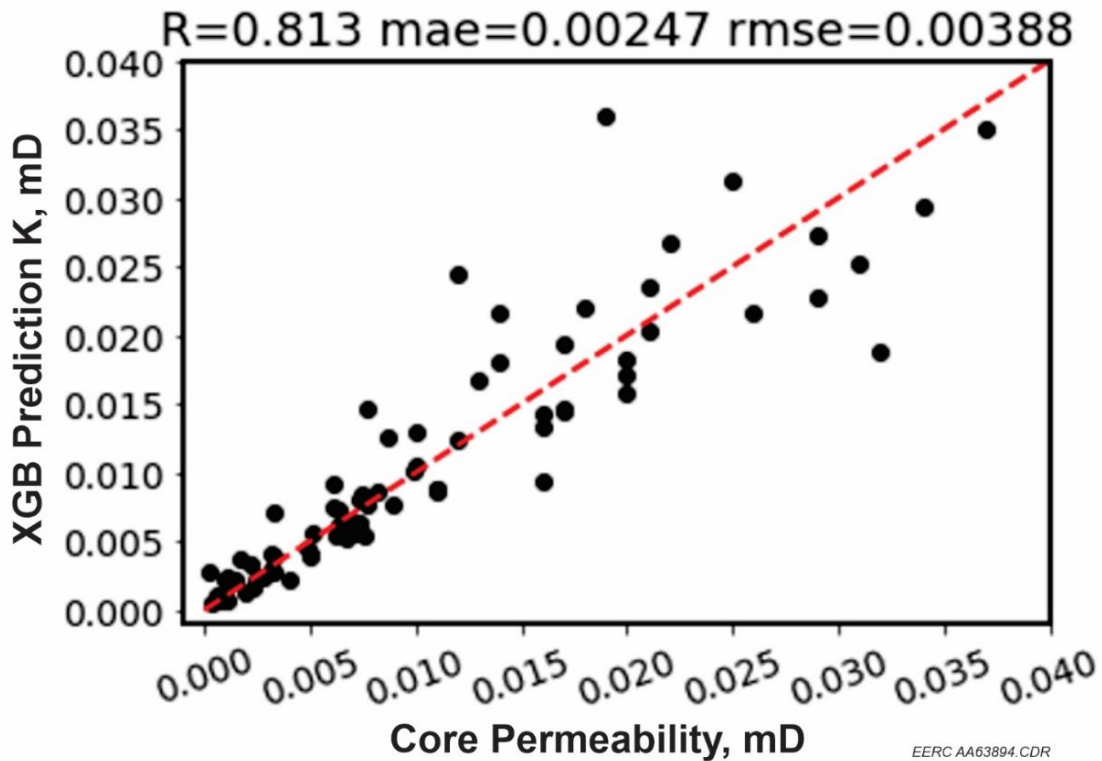


Figure 8. Results of the testing data set: permeability prediction by ML model vs. core measured permeability.

Next Steps

- This project has provided the basic knowledge needed for future work, and identification of additional funding opportunities will continue.
- Suggested future work includes the following:
 - Additional lab measurements and field data could be used to refine the model approach developed here and support better predictions of reservoir behavior.
 - This modeling approach could be used to develop a database with a wide range of permeability–pressure coefficient data in other unconventional reservoirs.

Evaluation of Graphene-Enhanced, Low-Viscosity Engine Oil for Automotive, Aerospace, and Unmanned Aerial Vehicle Applications

Overview

This project evaluated the performance of graphene-enhanced, low-viscosity engine oil for automotive, aerospace, and unmanned aerial vehicle applications. Primarily, the friction and wear characteristics of steel–steel contact under reciprocating sliding conditions were investigated using composite mixtures made from base oil lubricants and North Dakota lignite-derived carbon additives.

Highlights

- Two high-value carbon materials made from North Dakota lignite were evaluated as high-performance lubricant additives to a base oil.
- Results indicate that the enhanced lubricants developed through this project show improved performance with respect to friction coefficient and wear (Figure 9).

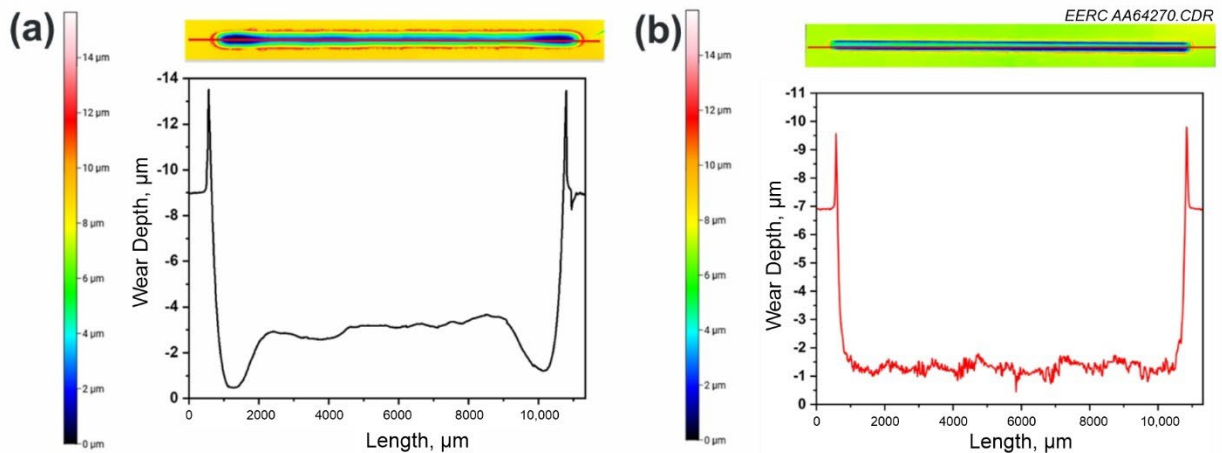


Figure 9. Wear depth profiles of a) base oil and b) enhanced lubricant. The wear volume in the enhanced lubricant case is smaller, indicating improved performance.

Next Steps

- This project has provided the basic knowledge needed for future work, and identification of additional funding opportunities will continue.

300°C Proton Exchange Electrolyte (300PEE) for Ammonia

Overview

Through previous EERC work, a unique 300PEE has been developed. This electrolyte has the potential to replace the high-pressure Haber–Bosch process, the global standard for ammonia (NH₃) production. While showing great promise, the current electrolyte suffers from limited durability, preventing its broad application. The project focused on optimizing 300PEE durability to demonstrate its ability to sustain proton conductivity at 300°C in the presence of steam and hydrogen for an extended period of time.

Highlights

- This project resulted in the development and partial optimization of a novel membrane fabrication method to create a proton-conducting electrolyte (PCE) that can be used for low-pressure NH₃ production (Figure 10).

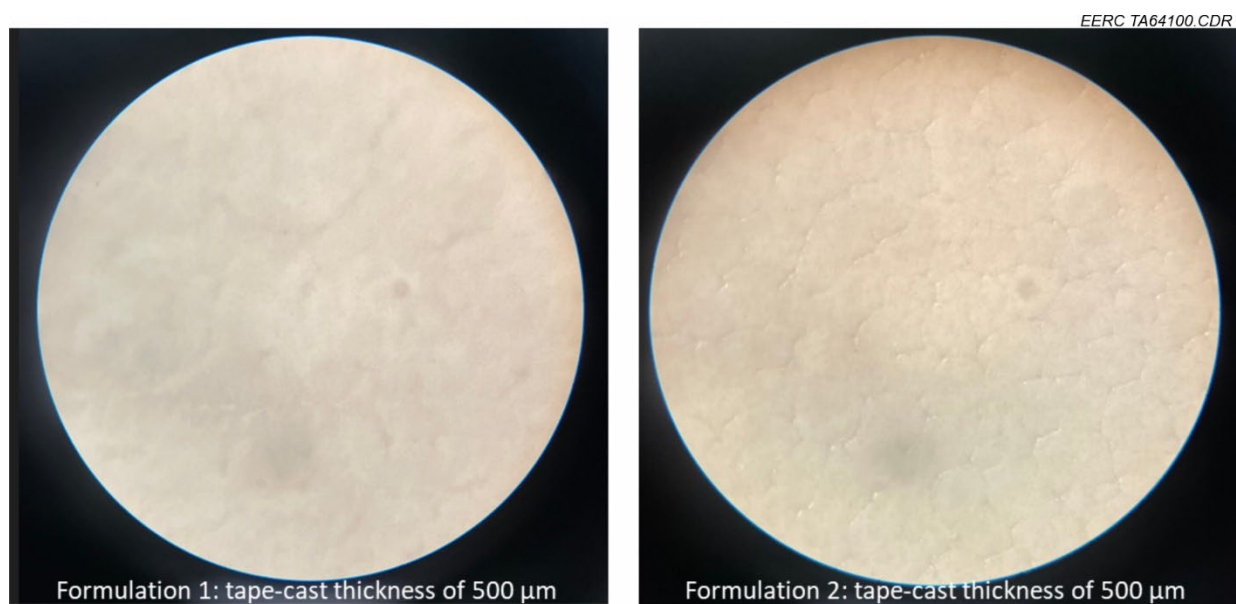


Figure 10. Round PCEs made from two slightly varied formulations.

Next Steps

- The results of this project helped advance the state of the art for a PCE fabrication technique. Further optimization of this technique is being conducted under a separately funded follow-on project.
- Project results were used to support a proposal to DOE in response to Funding Opportunity Announcement (FOA) DE-FE-0002804. Multiple North Dakota commercial entities partnered with the EERC on that proposal, which unfortunately was not funded by DOE. Identification of additional funding opportunities will continue.

Polar BearSM – Robust Adaptive Technology to Economically Capture Flared Gas in North Dakota

Overview

The future of a highly competitive oil and gas industry in North Dakota will likely be measured based on producing the “cleanest” energy in the nation. One environmental measure is CI. Flaring of associated gas is the primary contributor to the Bakken’s CI. The EERC has conceived technology to economically capture the remaining gas. The technology (referred to as Polar BearSM) has the potential to greatly improve gas capture and bring North Dakota closer to zero flaring. This project helped prepare this technology for field testing by developing effective process control, innovating compression, and characterizing operational constraints.

Highlights

- This project helped advance the state of the art for a novel gas capture technology, called PolarBearSM. The following has been accomplished to this end:
 - Concept investigation, engineering, and laboratory testing were completed.
 - Industrial process control for Polar BearSM has been determined, and an initial prototype was created.
 - The concept has been patented.
 - A licensing agreement is in development.
 - A joint development agreement for commercialization with a local North Dakota manufacturer was finalized.
 - Multiple commercial oil operators interested in field-testing PolarBearSM technology were identified and engaged.

Next Steps

- Development of this technology will continue. A field test is planned to be conducted to gather dynamic production data from typical small well pads to assist in product sizing and to test the capability of advanced process controls.
- A proposal for continued development of this technology was recently awarded by DOE.

Integrated Renewable Combined Heat and Power for Ethanol

Overview

This project conducted a feasibility study for implementing renewable combined heat and power (CHP) at operational ethanol production facilities in North Dakota. The goal of this study was to determine the technical and economic feasibility of implementing small-scale commercial CHP using organic waste feedstocks at an operational industrial facility to further reduce the CI of ethanol eligible for low-carbon fuel (LCF) programs.

Highlights

- Various scenarios and feedstocks were investigated and lifecycle analyses (LCAs) conducted. Both gasification and combustion energy generation scenarios were investigated.
- Five feedstock cases were examined: corn stover, corncobs, tree trimmings, wood chips, and an even mix of each fuel type (Figure 11). Results suggest that implementing biomass CHP could significantly reduce net CO₂ emissions for ethanol production.
- Preliminary LCA findings indicate that implementing biomass CHP could significantly reduce net CO₂ emissions for ethanol production, suggesting potential for negative CI values.
- The gasification scenario indicates much higher O&M (operating and maintenance) costs, along with higher consumables and waste disposal costs. Those costs, along with the smaller concentration of CO₂ in the gas stream for removal, equates to a much higher cost per ton of CO₂ removed over the cost of the combustion scenario of CO₂ removed. These results are considered high-level and preliminary, and more work must be done to offer real-world indicators of cost and performance; however, they do offer a basis for comparison to guide future analysis.
- Recommendations for future work include the following:
 - Detailed and site-specific evaluations would be required to assess viability for specific ethanol facilities. For example, actual feedstock logistics and availability, pricing, and specific preprocessing requirements for the CHP technology chosen should be diligently investigated.
 - Engineering designs and comprehensive economic assessment should also be conducted to refine investment requirements for implementation.
 - LCA modeling should be updated based on the above work.

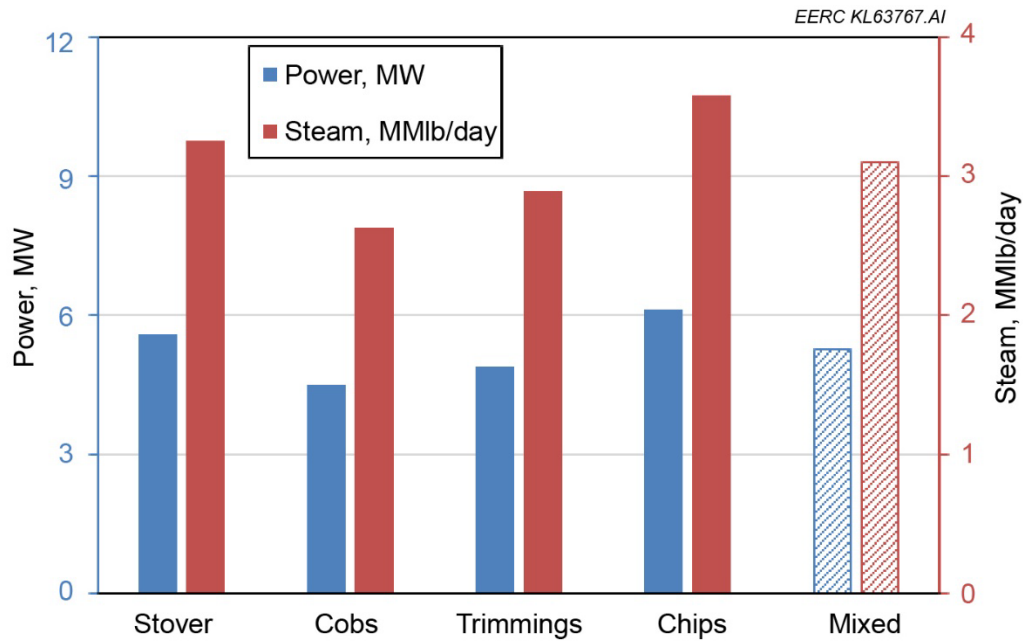


Figure 11. Combustion CHP electrical and steam generation by fuel type.

Next Steps

- The results of this work were used to propose a larger follow-on study to be funded by DOE. This forthcoming project will advance the technical and economic feasibility study and LCA work for a representative North Dakota ethanol plant.

Examination of In Situ Hydrogen Conversion in Oil Reservoirs

Overview

This project explored the hypothesis that hydrocarbons remaining in the subsurface can be converted into commercial volumes of H₂ through in situ thermochemical conversion while leaving most, if not all, of the associated CO₂ in the reservoir. The feasibility of using oil and gas resources in North Dakota's hydrocarbon reservoirs to produce H₂ through an in situ hydrocarbon–hydrogen (HC–H₂) conversion technology was investigated.

Highlights

- A preliminary screening-level calculation was done to gauge the potential for H₂ production in North Dakota. Initial calculations indicate there is potential to apply an in situ H₂ conversion process to many oil fields in North Dakota, and the potential is significant, with large reserves of oil and natural gas resources available in the state.

- A novel in situ HC–H₂ conversion system with a CO₂ storage component was conceptualized through this work that could produce CO₂-free H₂ from reservoirs directly (Figure 12).
- Specific experiments, including thermogravimetric analysis, ramped-temperature oxidation, pressurized differential scanning calorimetry, etc., were identified to be necessary for characterizing the combustion and conversion processes. Performing these experiments was outside the scope of this work.
- A general workflow covering experimental, modeling, and simulation processes was developed to support the systematic investigation of the in situ HC–H₂ conversion technology in future work.

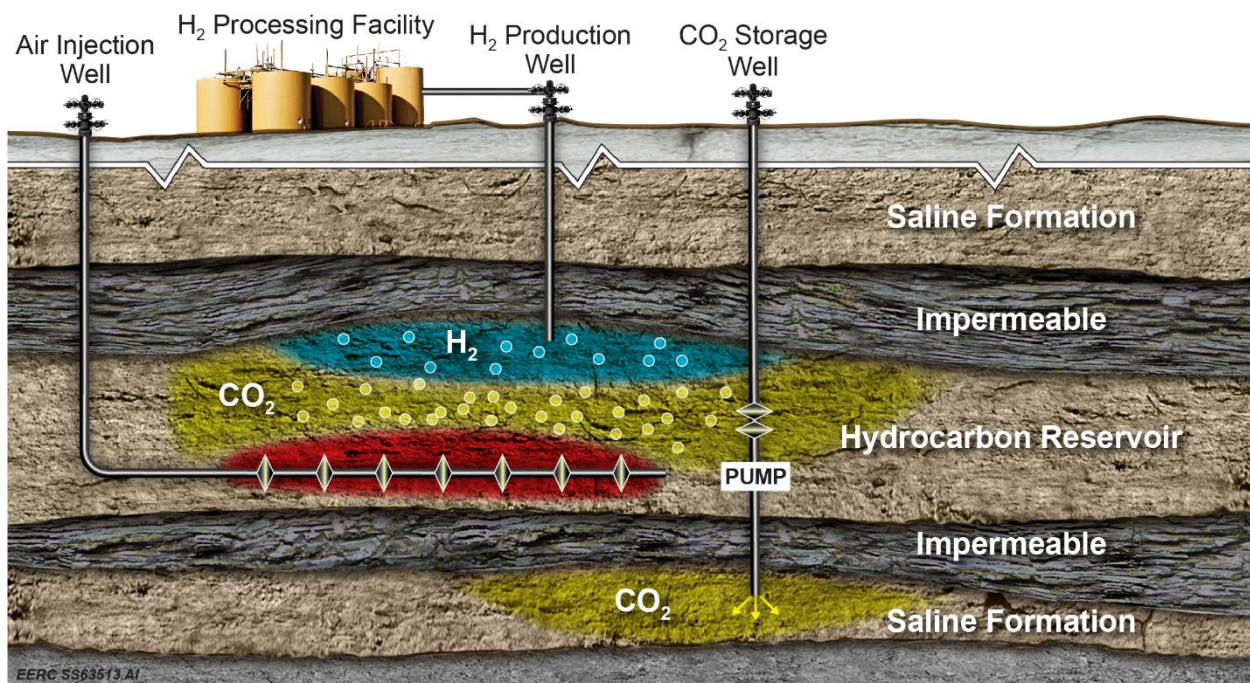


Figure 12. Schematic of the in situ HC–H₂ conversion system with CO₂ storage.

Next Steps

- Since the in situ HC–H₂ conversion technology is still in a conceptual development stage, significant work is required to evaluate the feasibility of using this technology in an actual field. The following tasks are recommended for future studies on this topic:
 - Laboratory and additional modeling work should be performed to improve predictions of in situ HC–H₂ conversion efficiency.
 - Anticipated by-products of conversion and their long-term fate should be investigated.
 - Potential future field demonstration sites should be identified.
 - Techno-economic and life cycle analyses could be used to inform future pilot- and commercial-scale projects.

- The results of this study were used to develop a proposal submitted to DOE. At the time of this reporting, the funding decision was still pending.

TASK 2 ANNUAL SUMMARY

Task 2 is intended to provide quick and efficient access to energy experts from the EERC for timely scientific and engineering studies to support the state's interests. Through this task, SERC has the ability to both react to and proactively address issues that have the potential to impact the state's energy and other (if appropriate) industries. All projects conducted through this task are at NDIC's discretion. Below is an update on Task 2 activities this past year.

Supporting State of North Dakota Proposals

North Dakota Transmission Authority

At the NDIC meeting on June 30, 2022, funding from Task 2 was approved for the EERC to support the development of a grid resiliency proposal in response to a federal solicitation. This had been reported in the previous annual report; however, it was incorrectly listed as occurring June 30, 2021. This effort was led by the North Dakota Transmission Authority (NDTA), with the proposal being submitted by NDTA on time. DOE has acknowledged receipt of the proposal, and the EERC has supported the modification of forms to help advance the award.

Direct Air Capture and Hydrogen Hub Development

At its September 2022 meeting, NDIC approved the use of Task 2 funding to support the development of two proposals in response to federal FOAs that have significant potential benefit for the state of North Dakota, its people, and its industries. These proposals are described below:

- **Bipartisan Infrastructure Law: Additional Clean Hydrogen Programs (Section 40314) Regional Clean Hydrogen Hubs.** This FOA (DE-FOA-0002779) was focused on the development of hydrogen hubs that demonstrate the production, processing, delivery, storage, and end use of clean hydrogen. Each hub will include multiple partners that will bring together diverse hydrogen technologies to produce and use large amounts of hydrogen in different ways. This proposal was successfully submitted in April 2023, and at the time of this reporting, a funding decision was still pending (anticipated fall 2023).
- **Bipartisan Infrastructure Law: Regional Direct Air Capture (DAC) Hubs (Section 40308).** This FOA (DE-FOA-0002735) was focused on developing four regional DAC hubs. The hubs will have the potential to be a part of a regional or interregional carbon network to facilitate CO₂ storage or utilization. This proposal was successfully submitted in March 2023, and at the time of this reporting, a funding decision was still pending (anticipated August 2023).

North Dakota Department of Commerce

The North Dakota Department of Commerce (NDDC) requested a proposal from the EERC to develop energy security and resiliency plans for the state of North Dakota. This proposal was prepared and submitted in August 2022 and the project awarded in September 2022. The grid resiliency portion of the proposed scope of work is being funded through SERC Task 2 and is described below:

- **North Dakota Grid Resiliency Plan.** This task is coordinating efforts for developing a North Dakota electric grid resiliency plan to identify, evaluate, and address risks associated with potentially widespread and/or long-term electrical power outages. The plan will follow a framework for a comprehensive grid resilience risk assessment that includes identifying potential threats, evaluating likelihood of occurrence and severity of consequences, and identifying opportunities for improving grid resiliency. Key activities performed throughout the year included the following:
 - A preliminary evaluation of the North Dakota electrical grid and the diversity of the North Dakota electricity sector was completed. This evaluation considered the following components: an overview of operational conditions, bulk and wholesale energy markets, reliability, resource adequacy, and planning efforts of North Dakota grid operators as well as other factors that have an impact on grid resiliency in the state.
 - Potential threats and vulnerabilities of the North Dakota electrical grid were identified. The EERC is soliciting input from North Dakota transmission and distribution utilities and other experts as appropriate.
 - A midproject update meeting was held on May 15, 2023. The project team presented to representatives of NDDC and received feedback that will help guide the remainder of the project.

TASK 3 ANNUAL SUMMARY

This task is focused on outreach activities to advocate for and educate about North Dakota's energy industries. Within this task, opportunities to collaborate with other North Dakota institutions of higher education were created. During the last year, the primary education and outreach activities have been public engagement presentations and the Energy Hawks Program.

Public Engagement Presentations

EERC staff members were invited to present at the Energy Progress & Innovation Conference (EPIC) as part of promoting energy education in the state. This conference was held January 24–26, 2023, in Bismarck, North Dakota. The following presentations developed through SERC activity were given:

- A workshop on hydrogen production.
- A workshop on the topic of environmental justice and environmental, social, and governance issues.

- An overview of SERC efforts.

In addition to presenting at EPIC, EERC personnel took advantage of other opportunities throughout the year to attend and present on energy-related topics at various conferences and meetings.

Energy Hawks

The multidisciplinary Energy Hawks Program brings together students from a variety of academic programs and institutions to collaborate on identifying value-added opportunities for North Dakota energy. Highlights from the Energy Hawks Program over the last year are discussed below.

2022 Program

The 2022 Energy Hawks Program consisted of 13 students: ten from UND and one each from North Dakota State University, Bismarck State College, and Minot State University (Figure 13). Williston State College and Nueta Hidatsa Sahnish College declined the offer to participate in 2022. The 13 students spent 10 weeks learning about all forms of North Dakota energy. The 2022 program consisted of a team-building workshop at the EERC, a weeklong in-person tour of western North Dakota's energy industry, and on-site and hybrid on-site/virtual participation at the EERC. Three concept research projects were developed and presented by the 2022 Energy Hawk students to EERC research staff and are summarized below.



Figure 13. 2022 Energy Hawks visiting a wind turbine during the western North Dakota energy tour.

Energy Hawks Concept No. 1 – Economic, Social, and Regulation Nexus in Achieving a Hydrogen Hub: The Case of North Dakota – This paper investigated how economics, social perspectives, and regulatory policies could help in establishing a hydrogen hub in North Dakota. To achieve this objective, literature on economics, social perspectives, and regulatory policies within and outside North Dakota regarding the implementation of hydrogen technology was reviewed. It was found that for a cost-competitive hydrogen industry to be developed, proper economic regulations and strategic investments from oil and gas and coal companies are needed. With these investments, greater market penetration of hydrogen products into various industries, especially the transportation industry, could be achieved at a competitive cost. Equivalently, the social perception of hydrogen in North Dakota will play a role in the successful implementation of a hydrogen hub. For this reason, this paper recommended engaging in educational outreach to teach people about the importance and safety of hydrogen so that they are more willing to accept hydrogen. Finally, North Dakota’s regulations and policy will be important factors in supporting a future hydrogen economy.

Energy Hawks Concept No. 2 – “Out of the Blue” Hydrogen Highway in North Dakota – With the growing demand for clean energy sources, having efficient ways to store and transport energy

is essential to the dependability of the energy grid. Hydrogen, as an energy carrier, is one feasible way to manage the current limitations of the transportation and storage of energy. Blue hydrogen, which is hydrogen made from fossil fuels with CCS, is the primary focus of this paper. This study analyzed current and future hydrogen production, generation, and transportation within the state of North Dakota. This research proposed three avenues of hydrogen transportation in the form of pipelines: pure hydrogen pipelines, ammonia pipelines, and hydrogen blended with natural gas. Each route comes with its own respective benefits and drawbacks, which were evaluated within the paper. This research considered the benefits of blue hydrogen for the energy, agricultural, and industrial sectors of North Dakota.

Energy Hawks Concept No. 3 – Squeezing the Dough Out of Flare Gas – The quantities of raw natural gas released into the environment during the extraction and processing of crude oil by flaring constitute a vast source of mineral wealth that can be used to produce other useful products. Flaring of associated gas is a challenge North Dakota has been working to address. The prospective solutions studied in this paper are technologies that could potentially monetize the flared associated natural gas. Monetizing this resource could be a boon for the economy and will also create new job opportunities for the people of North Dakota. This study evaluated six technologies that North Dakota oil producers could deploy. Cost analysis of these gas-flaring utilization technologies were performed based on their economic and technical constraints.

The gas-flaring utilization technologies face a few challenges and risks, including high capital costs; efficiency and reliability of complex process sequences; crude oil and petroleum product markets; and access to technology. This study considered the industry in the context of available opportunities and the challenges faced by project developers.

2023 Program

The Energy Hawks Program for 2023 began on May 19, 2023, and includes an in-person tour of western North Dakota, a team-building workshop at the EERC, and on-site and hybrid on-site/virtual participation at the EERC. Twenty-seven student applications for the program were received from UND. Ultimately, 14 students, a mix of graduate and undergraduate students, were selected to participate in the program: 13 from UND and one from Minot State University (Figure 14). North Dakota State University, Bismarck State College, Williston State College, and Nueta Hidatsa Sahnish College declined the offer to participate in 2023. The tour of western North Dakota occurred June 5–9, 2023, and included stops at power generation and distribution facilities, a coal mine, oil and gas-related facilities, regulatory entities, Watford City, and the Mandan Hidatsa Arikara Nation. The program will be completed in early August 2023, with three concept papers prepared by the students, like previous Energy Hawks Program years.



Figure 14. 2023 Energy Hawks participated in an in-person tour of western North Dakota energy.

FUTURE WORK

The overall efforts of SERC will continue over the next year, beginning with a new round of fundamental research projects anticipated to start in late summer 2023. As appropriate, results will be presented to NDIC, the Energy Development and Transmission Committee, and the next North Dakota Legislative Assembly. New inventions will also be identified, and where appropriate, patent protection will be sought.

APPENDIX A

**STATE ENERGY RESEARCH CENTER
FINANCIAL SUMMARY AS OF JUNE 30, 2023**

STATE ENERGY RESEARCH CENTER
Financial Summary as of June 30, 2023

Task	Budget	Expended	Balance
1 – Exploratory Research	\$7,725,582	\$7,354,463	\$371,119
2 – Prompt Expertise	\$958,345	\$882,684	\$75,661
3 – Advocate & Educate	\$1,316,073	\$1,305,148	\$10,925
Totals	\$10,000,000	\$9,542,295	\$457,705

Notes:

- The remaining Task 1 funding is allocated for exploratory research activities, including the four ongoing projects referenced in the Task 1 section of the report.
- The remaining funding in Task 2 is for the ongoing grid resiliency effort discussed in the Task 2 section of the report. This project is anticipated to end September 30, 2023, and all funds are planned to be expensed by that time.
- Task 3 expenses came in less than originally budgeted, and the remaining funding was moved to Task 1 to support exploratory research activities.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

Memorandum

TO: Doug Burgum, Governor and Chairman
Drew Wrigley, Attorney General
Doug Goehring, Agriculture Commissioner

FR: Reice Haase, Deputy Executive Director

DT: November 28, 2023

RE: State Energy Research Center CO₂ Enhanced Oil Recovery Incremental Oil Production Forecast

During the 2023-2025 biennium, \$750,000 is available for the Commission to contract for on-demand studies under Contract SERC 2019-01 Task 2 – Provide Prompt Expertise for North Dakota. The EERC is requesting the Commission to authorize \$135,000 under Task 2 for a 5-month investigation to forecast incremental oil production associated with CO₂ enhanced oil recovery (EOR) in North Dakota's conventional and unconventional reservoirs.

The forecast will focus on realistic development scenarios in the 2024–2045 timeframe and will include the projected CO₂ supply availability and demand and a prediction of yearly net CO₂ use and incremental oil production across the specified time frame. The proposed effort will build on work that the EERC performed in 2014 and 2019 and the IHS 2016 report. CO₂ EOR production forecasts for the Bakken petroleum system will leverage results and findings from pilot-scale EOR efforts and the body of work produced through the EERC-led Bakken Production and Optimization Program (BPOP). The EERC will work with the North Dakota tax department and/or an experienced tax advisor consultant to forecast associated tax revenue flow and estimate the value of a potential extraction tax break for incremental production associated with CO₂ EOR. A final report will include a discussion of results, what assumptions and inputs were used, and what future activities could reduce the uncertainty of the forecasts. The 5-month investigation is estimated to require up to \$135,000 and is proposed to commence in January 2024.

Therefore, I recommend that the Commission authorizes \$135,000 from Contract SERC 2019-01 Task 2 – Provide Prompt Expertise for North Dakota for the purpose of completing a forecast of incremental oil production associated with CO₂ enhanced oil recovery in North Dakota during the 2024-2045 timeframe.



RENEWABLE ENERGY PROGRAM PROJECT MANAGEMENT REPORT

Reice Haase, Deputy Executive Director, NDIC

November 28, 2023

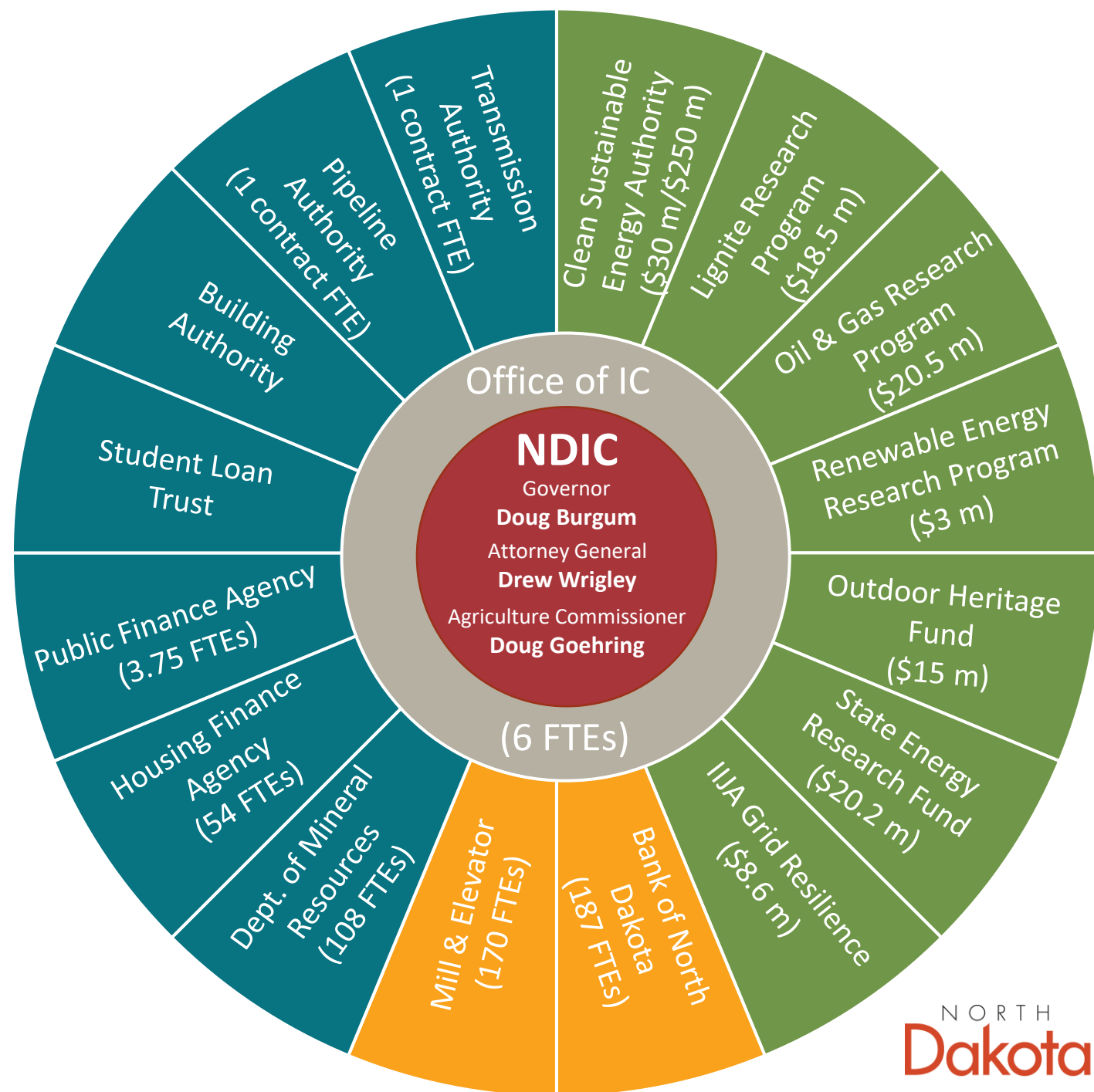


Be Legendary.™

Industries, Agencies, and Programs

Legend

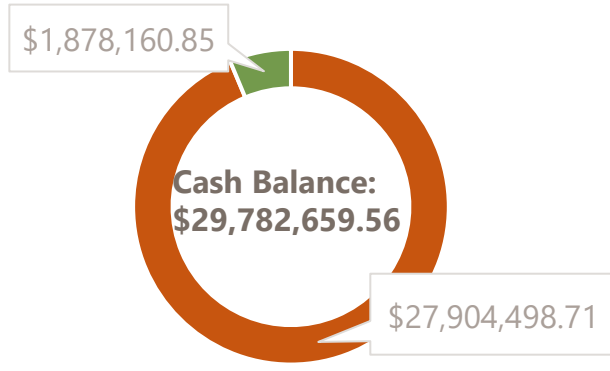
- Commission
- Office of IC
- Agency Role
- Grant Program
- State-Owned Enterprise



Updated to reflect 68th Legislative Assembly changes

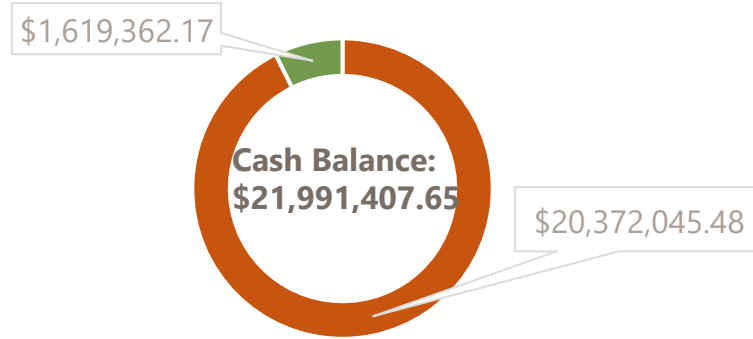
INDUSTRIAL COMMISSION-MANAGED FUNDS

Lignite Research Fund



■ Committed ■ Uncommitted

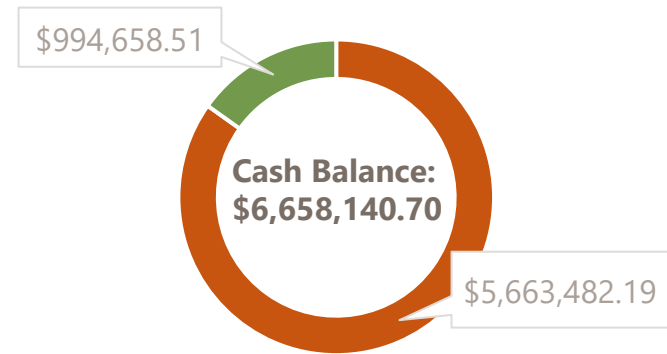
Oil and Gas Research Fund*



*Does not include SIIF or Gas Capture

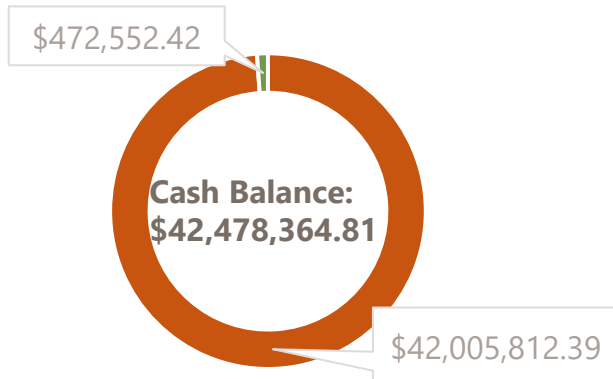
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Renewable Energy Fund



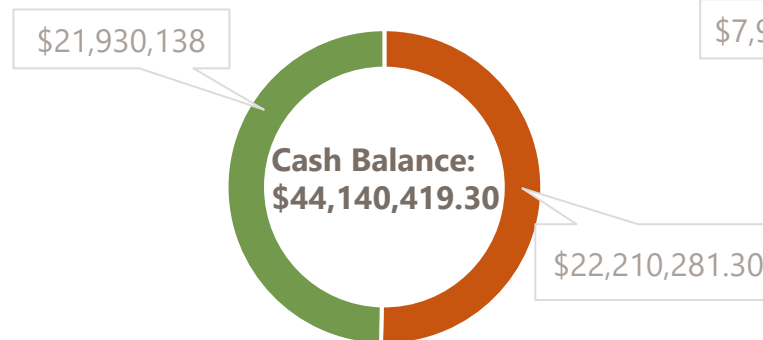
■ Committed ■ Uncommitted

Outdoor Heritage Fund



■ Committed ■ Uncommitted

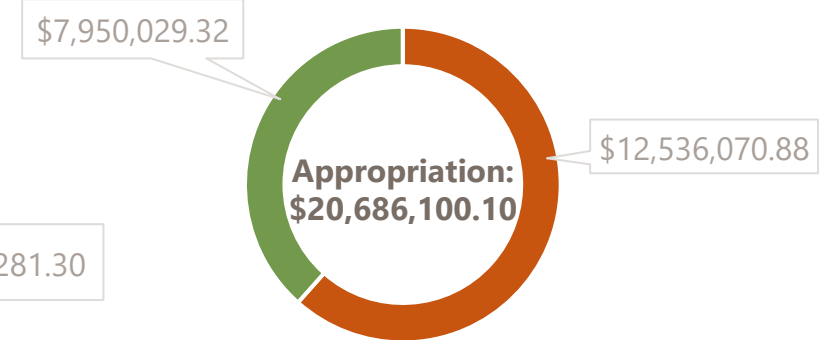
CSEA Fund*



*Does not include ARPA or Loans

■ Committed ■ Uncommitted

SERC Fund

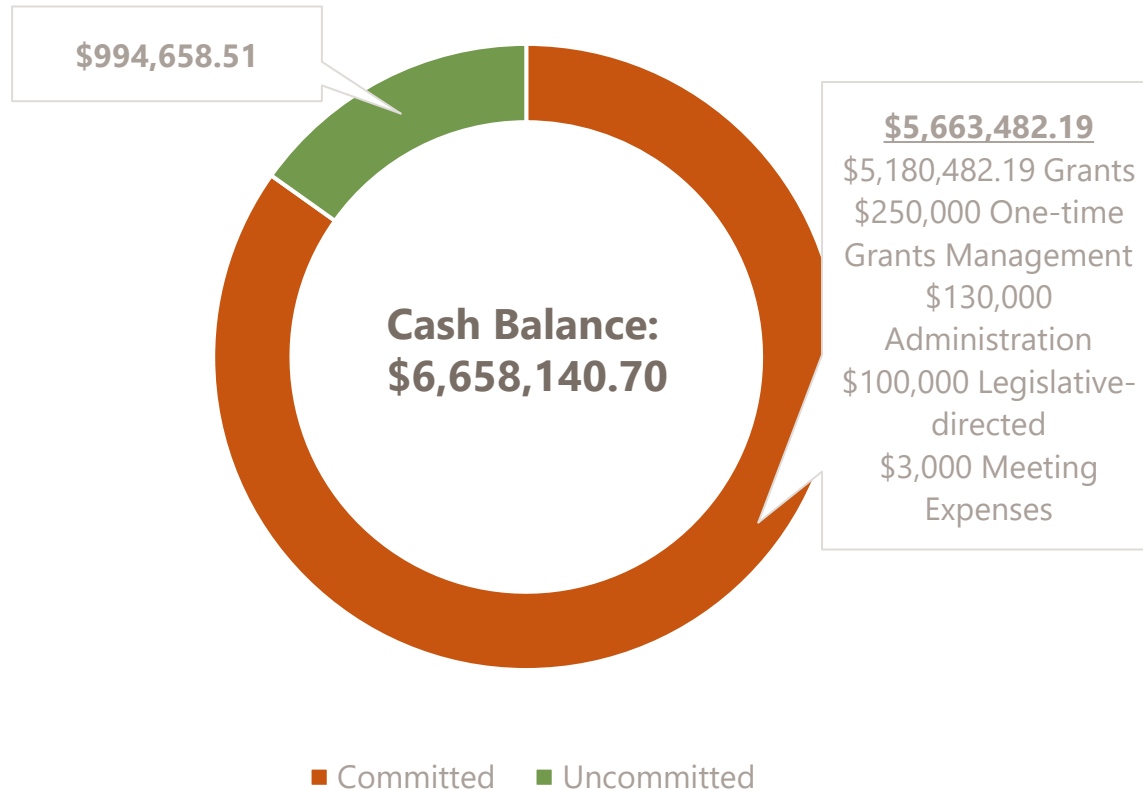


■ Leg. Directed ■ Remaining ■ Spent

RENEWABLE ENERGY FUND BALANCE

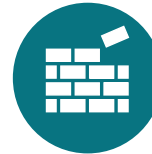
NOVEMBER 6TH, 2023

Renewable Energy Fund



Funding Source:

- \$3 million oil production taxes



70 Cumulative Projects



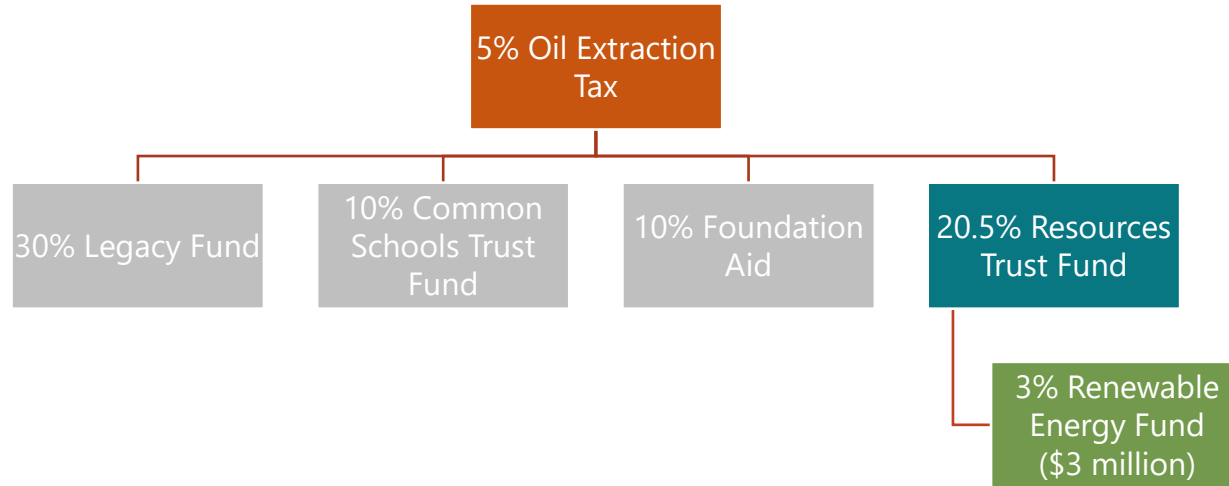
18 Active Projects



Cumulative Value:

- \$23.5 million granted
- \$154.7 million project value

2023-2025 BIENNIUM APPROPRIATION AND FORECASTED INCOME



Month	OMB Forecast	Actual
August 2023	\$588,234	\$523,151.02
September 2023	\$607,842	\$596,920.57
October 2023	\$607,842	N/A
November 2023	\$588,234	N/A
December 2023	\$607,842	N/A
January 2024	\$6	N/A

Assumes:



\$62-75/bbl



1.1 m bbls/day

**Renewable Energy Development Program
Grant Round 52 Applications (November 2023)**

Grant #	Application Title	Applicant	Summary	Principal Investigator	Funding Requested	Total Project Costs	Applicant Match	Category	Conf. Request	Duration	Renewable Energy Council Vote:
R-052-A	Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for Resuing Thermosets and Effectively Recovering Fibers via Mechanical, Thermal, Biological, and Chemical Pathways	UND	Recycling used wind turbine blades by three methods: gasification, milled into 3D-printing feedstock, and thermoset polymers	Surojit Gupta	\$500,000	\$3,780,360	87%	Co-product Utilization	No	3 Years	4-1
R-052-B	Prairie Horizon Carbon Management Hub	EERC	Development of CO ₂ storage hub for renewable diesel and hydrogen production facility; Up to 5 m tons/year captured	Kevin Connors	\$100,000	\$3,225,000	97%	Hydrogen	No	2 Years	5-0
	Total recommended funding				\$600,000	\$7,005,360					



INDUSTRIAL COMMISSION OF NORTH DAKOTA
RENEWABLE ENERGY PROGRAM

TECHNICAL REVIEWERS' RATING SUMMARY

R-052-A

**SMART HOLISTIC ZERO WASTE UTILIZATION PARADIGM (SHOWUP)
FOR REUSING THERMOSETS AND EFFECTIVELY RECOVERING
FIBERS VIA MECHANICAL, THERMAL, BIOLOGICAL
AND CHEMICAL PATHWAYS**

Principal Investigator: Surojit Gupta

Request for \$500,000 Total Project Costs \$3,780,360 (DOE)

Funding Requested: \$3,000,000

TECHNICAL REVIEWERS' RATING SUMMARY					
R-052-A					
SMART HOLISTIC ZERO WASTE UTILIZATION PARADIGM (SHOWUP)					
FOR REUSING THERMOSETS AND EFFECTIVELY RECOVERING					
FIBERS VIA MECHANICAL, THERMAL, BIOLOGICAL					
AND CHEMICAL PATHWAYS					
Principal Investigator: Surojit Gupta					
Request for \$500,000 Total Project Costs \$3,780,360 (DOE)					
Funding Requested: \$3,000,000					
Rating Category	Weighting Factor	Technical Reviewer			Average Weighted Score
		1A	2A	3A	
		Rating			
1. Objectives	9	3	4	3	30.00
2. Achievability	9	4	3	2	27.00
3. Methodology	7	5	5	3	30.33
4. Contribution	7	4	5	3	28.00
5. Awareness	5	3	1	3	11.67
6. Background	5	3	5	3	18.33
7. Project Management	2	5	3	3	7.33
8. Equipment Purchase	2	5	2	4	7.33
9. Facilities	2	4	4	4	8.00
10. Budget	2	4	3	4	7.33
Average Weighted Score		192	187	147	175.33
Maximum Weighted Score					250.00

- 1. The objectives or goals of the proposed project with respect to clarity and consistency with North Dakota Industrial Commission/Renewable Energy Council goals are: 1 – very unclear; 2 – unclear; 3 – clear; 4 – very clear; or 5 – exceptionally clear.**

Reviewer 1A (Rating 3)

This proposal is to conduct research and development of doing something with wind turbine blades, that are worn beyond their practical use, other than bury them in a landfill. It may lead to additional jobs in North Dakota if the research yields positive results but, for the purpose of this proposal, it produces no additional positions in North Dakota.

Reviewer 2A (Rating 4)

The recycling/reuse of wind turbine blades is critical item for North Dakota as well as the rest of the wind industry and is clearly tied to the NDIC/REC's goals of encouraging energy development, sustainable energy, and job creation.

There is no discussion in the tagging development process to describe the expected distribution among the three levels of damage. Nor is there a discussion what happens to the substrate (although there is a weakly implication that the substrate could be gasified.) This gets back to the benefit of the tagging analysis part of the project; perhaps only a visible inspection at the time of decommissioning would be sufficient to throw the blades in one pile or another.

Reviewer 3A (Rating 3)

If mission proves successful, the results would promote the environmentally sound use of ND's wind energy resources and help ensure economic stability of the wind energy industry were clearly stated.

However, there were no clear statements as to how this mission necessarily creates additional ND jobs, promotes public awareness, or adds wealth for landowners or agriculture producers.

- 2. With the approach suggested and time and budget available, the objectives are: 1 – not achievable; 2 – possibly achievable; 3 – likely achievable; 4 – most likely achievable; or 5 – certainly achievable.**

Reviewer 1A (Rating 4)

The 3-year research and development scope is well thought out and certainly should be achievable. The DOE grant provides the majority of the resources required for this proposal.

Reviewer 2A (Rating 3)

The goals are most likely achievable if the results of the program are as hoped in the proposal. However, things happen. Reactions may not produce the expected products. The systems may not be able to progress successfully beyond bench scale. If the results are guaranteed, there would be no need for the research.

One possible outcome of research is finding what doesn't work.

Reviewer 3A (Rating 2)

It is the opinion of the review that achieving the desired results are possibly achievable. The method of reliably tagging turbine blades using drones and commercially available drones imaging systems will likely prove difficult if not impossible. Additionally, the costs associated with classifying, cutting, grinding, milling, handling, shipping, converting, gasifying, fiber recovery, and recycling will likely prove considerably more expensive than landfilling.

The economics of this application should be addressed as part of this project.

3. **The quality of the methodology displayed in the proposal is: 1 – well below average; 2 – below average; 3 – average; 4 – above average; or 5 – well above average.**

Reviewer 1A (Rating 5)

The step by step, multi-phased methodology appears to be well orchestrated among several individuals and sponsors.

Reviewer 2A (Rating 5)

The reviewer hesitates to define the quality of the methodology as well above average, but it is certainly much, much higher than many other projects that have been proposed.

Reviewer 3A (Rating 3)

The methodology as presented is well defined and concise. However, the anticipated costs associated with developing and operating a commercial scale processing facility should be addressed.

4. **The scientific and/or technical contribution of the proposed work to specifically address North Dakota Industrial Commission/Renewable Energy Council goals will likely be: 1 – extremely small; 2 – small; 3 – significant; 4 – very significant; or 5 – extremely significant.**

Reviewer 1A (Rating 4)

A means to utilize worn wind turbine blades will preserve the expected life of solid waste landfills in many states, including North Dakota. Though this proposal does not develop any of North Dakota's renewable energy resources, it may address a negative aspect that has arisen from that development. This proposal does fit the NDIC's goal of using new technologies and ideas that will have a positive economic and environmental impact on renewable energy development and production in North Dakota.

Reviewer 2A (Rating 5)

The proposed work and its expected outcome are apparently beyond anything successfully attempted before at least in the United States. The retirement of wind turbine blades will certainly become a major issue for the industry if solutions such as those being investigated here are not successful.

Reviewer 3A (Rating 3)

If the desired objectives are met, there may be a significant contribution to the classification and recycling of wind turbine blades and would promote environmentally sound use of North Dakota's wind energy resources.

5. **The principal investigator's awareness of current research activity and published literature as evidenced by literature referenced and its interpretation and by the reference to unpublished research related to the proposal is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.**

Reviewer 1A (Rating 3)

This is new research so detailed knowledge may be limited but I do understand the process of trials and evaluations. This proposal has been well thought out.

Reviewer 2A (Rating 1)

There was no comment of the PI's awareness of current research or published literature other than a statement that there have been no successful programs. A mention of other DOE projects underway hardly qualifies as a discussion of other research being similar or connected to this research.

Surely there has been past work that has failed to produce successful results or failed to produce economically viable results; such work may not have been published (who publishes failures – though

they should to advance the science) but someone of the PI's stature in the industry would surely be aware of.

Reviewer 3A (Rating 3)

Little literature or other research was referenced in the application.

- 6. The background of the investigator(s) as related to the proposed work is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.**

Reviewer 1A (Rating 3)

The timetable is reasonable and the various individuals involved in the many steps appear to be leading experts in their perspective fields. The coordination of the many groups of participants will probably provide the largest challenge of keeping this research running smoothly.

Reviewer 2A (Rating 5)

Based on the qualifications stated, the project team is well qualified and can be expected to deliver quality results with the minimum of false starts.

Reviewer 3A (Rating 3)

Backgrounds of the investigators is academic and sufficiently covers the necessary disciplines (mechanical, chemical, manufacturing, etc.)

- 7. The project management plan, including a well-defined milestone chart, schedule, financial plan, and plan for communications among the investigators and subcontractors, if any, is: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – very good; or 5 – exceptionally good.**

Reviewer 1A (Rating 5)

Well thought out.

Reviewer 2A (Rating 3)

The project schedule is well developed. The project management plan is in general ok. However, the submittal of annual reports to the NDIC is questionable; the NDIC should not have to request a quarterly report. In addition, a quarterly report which is available a month after the end of the quarter is hardly useful for challenging the pace of the work or the quality of its results. A bi-monthly report available two weeks after the end of the period is more realistic. If work is not being recorded and summarized more frequently than on a quarterly basis the researchers might be considered negligent. There is little to be gained by pulling together three-month's activities to develop a report.

The financial plan shows no tie to the schedule except the concept of "we're going to spend a lot of money and we don't know when it will be except sometime during the project."

Reviewer 3A (Rating 3)

Project management plan is adequate. Milestone chart is adequate, but not extremely well defined.

- 8. The proposed purchase of equipment is: 1 – extremely poorly justified; 2 – poorly justified; 3 – justified; 4 – well justified; or 5 – extremely well justified. (Circle 5 if no equipment is to be purchased.)**

Reviewer 1A (Rating 5)

The required equipment is listed as in-kind value other than the analytical equipment in the Chemical and Mechanical Engineering Departments at UND. The requested funding from the NDIC is to be used for the purchase of a state-of-the-art 3D printer.

Reviewer 2A (Rating 2)

The use/lease of existing equipment and facilities is well presented. The use of a drone is poorly justified. How many blades will be examined? Can the related imaging systems read a moving blade or is it required to be stationary?

This is a valuable piece of equipment (though price is not detailed); those retains ownership? Is the imaging process available by lease/contract with only the data analysis required by the project team? Could the evaluation and following analysis be performed as well with blades already removed from service?

Reviewer 3A (Rating 4)

Procurement of UAV and various imaging systems is well justified.

- 9. The facilities and equipment available and to be purchased for the proposed research are:
1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – notably good; or
5 – exceptionally good.**

Reviewer 1A (Rating 4)

The facilities and equipment are mostly provided by the University of North Dakota and the other partners cited in this proposal.

Reviewer 2A (Rating 4)

The principal investigators have well identified facilities and equipment that is available for the work except as noted in No. 8. The University of North Dakota has an exceptional system of laboratories to assist in this work.

Reviewer 3A (Rating 4)

Being an engineering research facility, UND is well suited for executing the proposed research.

- 10. The proposed budget “value”¹ relative to the outlined work and the financial commitment from other sources² is of: 1 – very low value; 2 – low value; 3 – average value; 4 – high value; or 5 – very high value. (See below)**

Reviewer 1A (Rating 4)

The \$3 million dollar grant from the Department of Energy provides the majority of the funding for this proposal. The private industry contribution falls far short of the 50% requirement and is only in-kind contributions. It is not cited in this proposal if the applicant expended any effort in acquiring a private party to aid in this research or not. Perhaps, with the DOE grant, it was not necessary.

Reviewer 2A (Rating 3)

While the positive results of the proposed work could be significant in solving a wind turbine blade disposal problem, the amount of work being performed here and the price involved are of average value. There is much overhead included and minimal laboratory work being performed; it is possible that the investigators would want to propose a further project to verify and expand upon the work they are doing.

Reviewer 3A (Rating 4)

If the DOE funds the requested \$3M, there is high value to the level of commitment and outlined work.

Section C. Overall Comments and Recommendations:

Please comment in a general way about the merits and flaws of the proposed project and make a recommendation whether or not to fund.

Reviewer 1A

Other than the salaries of the lead research individuals, not a great amount of detail was provided on how the overall cash flow of this proposal will occur. Perhaps, it was not necessary being all the proposal requests from the NDIC's funding is to purchase a 3D printer. However, I do support the NDIC funding this proposal as the possibility of utilizing worn out wind turbine blades will benefit many locations in many states, including North Dakota.

Reviewer 2A

The project has a high degree of being approved by the NDIC/REC based on Reice Haase's letter of support. In spite of this, I recommend the project be approved.

The result being investigated has yet to be found successful at least in the United States. The project's success (and eventual commercial success) will provide alternatives in the decomposition/destruction of retired wind turbine blades. This will be extremely important to the state of North Dakota and its wind industry.

The financial plan is extremely deficient as noted, and the management plan is somewhat deficient. How can a continual of the work be allowed if research is floundering or going askew; neither would be known until too late to effectively challenge the status. Further, NDIC should receive reports on a timely basis, not on an "as requested basis." There is no paper documentation involved only the transmittal of the published report.

The letters of support from Great River Energy, LM Power, and Strata are gratifying, but would be much more significant if they were accompanied with even modest financial contributions especially for companies that will receive such direct benefits from the project's successful completion.

In the section, "Why the Project Is Needed", there is a citation that ND ranks fourth in the generation of wind energy which statement is irrelevant. The relevant statistic is how many or what proportion of turbines blades are in ND.

Reviewer 3A

The merits of the proposed project may prove extremely beneficial if the desired results can be achieved economically. Developing a method to image, accurately identify, and sort wind turbine blades for recycling, as well as developing methods to recycle damaged blades is needed and is an environmentally preferred method of disposal over burial.

One main flaw of the proposed project is that it does not include developing/analyzing the estimated CAPEX costs for a commercial scale facility or the annual operating and maintenance costs associated with a commercial scale wind turbine blade recycling facility. Ultimately the benefits will need to outweigh the costs for any technology to become commercialized.

Recommendation: It is the recommendation of this Reviewer to fund this project application, but only if the DOE funds the project as well.



Application

Project Title: Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for Reusing Thermosets and Effectively Recovering Fibers via Mechanical, Thermal, Biological, and Chemical Pathways

Applicant: University of North Dakota

Principal Investigator: Surojit Gupta

Date of Application: 09/28/2023

Amount of Request: \$500,000

Total Amount of Proposed Project: Estimated total budget: \$3,780,360 (DOE Funding Requested: \$3,000,000)

Duration of Project: 3 years

Point of Contact (POC): Surojit Gupta

POC Telephone: (701)777-1632

POC Email: Surojit.gupta@und.edu

Renewable Energy Program

North Dakota Industrial Commission

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Project Location (s): Department of Mechanical Engineering, University of North Dakota, Grand

Forks; Drilling and Completion Lab (DRACOLA), Grand Forks; Grand Forks Landfill location of SET

LLC

Acknowledgement: Dr. Anna Crowell for editing the proposal

Appendix A: DOE Award Acceptance, NDIC Support Letter, Support Letters from Strata, GRE and LM Windpower and Commitment Letters from SET-led Consortium of Companies

ABSTRACT

Objectives: We propose interconnective sustainable technologies that will have a transformative effect on blade recycling via a University-Industry-National Lab collaboration. A critical aspect of this call is designing materials with innovative tagging methods and separating the constituents for effective wind blade reuse. We will develop a smart interface to sort blades into different functional components using Artificial Intelligence (AI) and Machine Learning (ML) (Objective-A). Heavily damaged blades will be recycled into Syngas using a propriety Sandwich Gasifier Technology (Objective-B). Medium-damaged blades will be mechanically milled to generate thermoset powder that will be integrated into 3D-printed structures (Objective-C). High-quality wind turbine waste will be recycled into thermoset polymers and fibers using propriety solvent-based (Objective-D) and enzymatic processes (Objective-E). A Life Cycle Analysis (LCA) for the entire process will be performed (Objective-F).

Expected Results: We will establish a holistic approach to increase thermoset and incorporated fiber sustainability and recyclability. Current pyrolysis-based technologies are destructive, destroy the polymeric components, and decrease fiber quality.

Duration: 3 years

Total Project Cost: Estimated total budget: \$3,780,360 (NDIC Funding Requested: \$500,000)

Participants: Collaborators and institutions (Drs. Gupta and Ji will manage the NDIC cost share grant):

UND: Co-PI: Yun Ji, Chemical Engineering; Co-PI: Hallie Chelmo, Mechanical Engineering; Co-PI: Beth Klemetsrud, Chemical Engineering; **University of Idaho:** Co-PI: Hasan Jamil; **National Lab Collaborator:** Yingqian Lin, Research Scientist, INL; **Industrial Partners:** Nikhil Patel, President, Singularity Energy Technologies LLC (SET); CEO at Dakota Green Power Co (DGP); Scott Homstad, Tristeel Manufacturing Company; Michael D. Mann, CEO and Founder, MDM Energy Consulting LLC.

PROJECT DESCRIPTION

Objectives: (a) Develop a smart image-based database and design an AI and ML-driven interface to sort and tag windmill waste into different categories, (b) Use heavily damaged blades as a source of Syngas via the gasification process at a 5-ton/day capacity, (c) Recycle thermoset powders to build functional components, such as 3D-printed non-wind turbine components, (d) Develop technology to recycle blades using propriety liquids in a pilot setting, (e) Validate biological agents as an effective medium for recycling green-coded turbine blades, (f) Evaluate all steps holistically to determine overall greenhouse gas emissions and cumulative energy demand for recycled wind turbine blades and overall life cycle analysis.

Methodology and Anticipated Results: We propose an innovative, Smart, Holistic Zero-Waste Utilization Paradigm (SHOWUP) to reuse thermosets and recover fibers effectively with minimal damage by integrating next-generation technologies developed at UND and SET. The integral components of this design paradigm are: (i) Blade wastes, including Offshore Wind (OSW) blades, will be tagged with ultrasonic and image evaluations. We will develop a smart interface to sort blades into functional components using Artificial Intelligence (AI) and Machine Learning (ML). Heavily contaminated damaged blades will be sent to SET for fuel generation product evaluation. ii) The screened system containing fibers and resin will be separated into milled powders and fibers with thermoset residues. The recovered thermoset powders will be used as a recyclable feedstock to develop wear-resistant and hydrophobic coatings and 3D-printed structures for rapid commercialization. Replacing different PTFE-based components is one of the program's inherent challenges. Ice accretion causes an 80% power loss; therefore, ice-phobicity will be quantified using our setup and chiller that can reach -40°C. iii) Fibers containing thermoset residue will be treated with ILs and an enzymatic degradation process. Determining the enzymatic degradation and IL pathways will involve studying the degradation kinetics at different conditions, such as temperature, pH, and humidity, to optimize the degradation process and mechanical behaviors. We will build the first pilot plant of its kind in the U.S. to process and recycle 50 Kg of thermoset

residue per batch. iv) We will assess the process' environmental impacts by examining the degradation products and their potential toxicity. Useful chemical products will be derived from the green treatment process. The left-over fibers will be extracted and integrated with the composites.

Facilities and Resources: MMI and the Department of Mechanical Engineering at UND have the following equipment for Advanced Materials Research: two 3.5" tube furnaces (controlled atmosphere, 1600°C and 1700°C), grinding and polishing equipment, Shimadzu AG-50 Universal Testing Machine (screw driven, 50 kN capacity), high-temperature furnace (< 1600°C and extensometer), and box furnaces. We also have Fused Deposition Modeling (FDM) and Selective Laser Sintering (SLS) printers. The Department of Chemical Engineering (Chem E) has a 500 MHz NMR (Avance 500, Bruker), High-resolution HPLC-MS TOF/ESI/APCI (Agilent G1969A), FTIR spectrophotometers (Perkin-Elmer Spectrum 400), several UV-vis spectrophotometers (Carry 50, Varian Inc.), Beckman Multipurpose Liquid Scintillation Counter Model LS6500, two state-of-the-art gas chromatographs (Agilent 6890N,7890) equipped with autosamplers, and Quadruple MS instruments with EI, CI, and NICI ionization sources (Agilent 5975C). One of the instruments is equipped with a pyroprobe 5200 (CDS Analytical).

The UND Drilling & Completion Lab (DRACOLA) is a state-of-the-art pilot development facility with on-site welders, plumbers, and electricians. Pilot studies for completing Objectives C and D will be located at DRACOLA. We have requested large-scale reactors and ancillaries for the project.

SET Technologies and Tri-Steel Manufacturing will provide access to the current 5-ton/day truck-mounted gasifier as part of the cost share requirements for this proposal.

Techniques to Be Used, Their Availability and Capability:

Objective A: UND will tag and differentiate drone blades into red (heavily damaged), yellow (matrix damaged), and green (reasonable condition) using ultrasonic, 3D imaging and drone-based imaging. UoI will use a transfer learning approach for pipeline design to detect and classify wind turbine damage using a ML/AI system. DOE will fund the imaging procurement system. **Objective B:** Procure Wind Turbine

Blades (WTB) to create a rejected WTB (R-WTB) sample for SET to analyze. Design, construct, and commission a table-top bench scale test unit to evaluate the preliminary conversion features of rejected WTB using SET's patented gasification process. Operate the 5-ton/day Sandwich gasification system after conducting recommended modifications. **Objective C:** Create recycled thermoset feedstocks from cured adhesives, thermoset components, and yellow-coded blades using mechanical milling, (b) Use Stereolithography (SL) and Selective Laser Sintering (SLS) to fabricate functional composites with recycled thermoset particulates. Design and manufacture non-Wind Turbine component prototypes and test prototype coatings in a pilot setting. Funds are requested from the NDIC for a state-of-the-art 3D printer as a cost share. UND has ball milling and other facilities. **Objective D:** Perform dissolution kinetics, absorption limits, and pathways of different types of thermosets in ILs by varying the chemistry of ILs and different solutions, characterizing recycled monomers/oligomers and fibers through imaging, FTIR, and Zeta-potential measurements. Integrate recycled monomers and fibers into composites and characterize the mechanical and physical behavior of the recycled composites. Design a pilot scale process at a level of TRL-5 using 50 Kg/batch feedstock. The stretch goal is processing 100-500 Kg of feedstock weekly. UND will have the capability to set up a pilot plant with DOE funding. **Objective E:** Explore the biodegradation kinetics and mechanisms at mild conditions (35°C) and design a pilot scale process at a level of TRL-4 with a stretch goal of TRL-5 using lignolytic or similar enzymes. **Objective F:** Complete a holistic LCA for SHOWUP. These results will be integrated into the technology commercialization plan to showcase the technology and inform potential investors on thermoset reutilization "greening."

Environmental and Economic Impacts While Project is Underway: The project's economic and environmental impacts are: (a) Sending heavily damaged blades to a Sandwich Gasifier (red code). This process is already commercialized and can be potentially scaled up to 5 tons per day within three years. (b) Using medium-damaged blades to generate and recycle thermosets into functional 3D-printed components for non-wind blade structures. (c) Processing the least damaged blades using IL solvents and

a biological recycling process. We used this technology to recycle epoxy in the feasibility study. We propose building an Ionic Liquid-Solvent-based plant in Grand Forks that is based on the experimental data and design paradigm. The innovation aspect is the usage of low Ionic Liquid concentrations in tailored solvents coupled with recyclability to design a state-of-the-art, first-of-its-kind, chemical pilot plant co-located with 3D printing technology as a “bootstrapping” philosophy of entrepreneurship.

Ultimate Technological and Economic Impacts: The proposed technology is based on smart and AI-driven processes that will streamline and sort blades into different categories. Tailored thermoset particles have not been explored as commercially available solid lubricants or integrated into 3D-printed structures. We will integrate these particles into coatings and 3D-printed structures that can be used for non-blade components, such as molds, bushings, towers, and platforms. The synergistic use of ionic solvents and enzymatic degradation will effectively remove fibers from the thermoset matrix with minimal disruption. The recovered fiber process can be extended to Carbon-fibers and used in construction applications. Completely rejected and corroded blades will be analyzed for energy generation. Degradation using ILs and enzymatic processes is a blue-ocean market space, and there are no commercial competitors that can recycle thermosets and fibers at a temperature <200°C in ambient air without using supercritical solvents.

Why the Project is Needed: North Dakota has continuous wind energy resources. Wind energy has doubled in the state from 2016 to 2022. According to the latest data, North Dakota has about 4,300 megawatts of installed wind power generating capacity and a site near Williston is the largest farm and has a 300 megawatts capacity. As a summary, North Dakota ranks fourth in terms of electricity generated from wind energy¹. Currently, there are no viable solutions for recycling wind turbine blades and only a few disposable sites in North Dakota. North Dakota solid waste management law encourages recycling

1

<https://www.eia.gov/state/analysis.php?sid=ND#:~:text=At%20the%20beginning%20of%202023,came%20online%20in%20early%202021.>

wind turbine blades but there are no or limited options². The successful completion of this project will potentially lead to successful recycling of wind turbine blades commercially, boost a new cluster of interconnected technologies which will further boost the state's economy, and will stimulate further development of wind energy in North Dakota.

STANDARDS OF SUCCESS

List of Measurable Deliverables Indicative of Program Success:

Year 1: (a) Protocol for tagging wind blades and sorting them into three major categories, (b) table-top bench scale unit for evaluating the conversion features of WTB, (c) Method to create thermoset feedstocks using mechanical milling, (d) Methods to use SL and SLS to fabricate composites, (e) characterization of monomers/oligomers and fibers, and (f) annual report.

Year 2: (a) R-WTD parametric testing using the bench-scale unit, (b) create an improvement strategy for the sandwich gasification system, (c) comprehensive characterization of physical and mechanical properties of composites, (d) Pilot scale process design process and mini pilot plant, and (e) annual report.

Year 3: (a) Optimized ML/AI system, (b) sandwich gasification system operation at 5 ton/day, (c) non-wind turbine component prototypes to replace PTFE-based components, (d) IL-based and 3D printing pilot plants process operating at TRL 5, (e) holistic LCA for SHOWUP, and (f) annual and final report.

Value to North Dakota: Wind energy is a major source of energy in North Dakota³. In ND, the renewable energy supports 2,200 jobs, > \$22.5 million in annual state and local tax payments, and \$8 billion in total capital investments. Wind farm technician is also the fastest growing job opportunity in US⁴. Based on these statistics, we can summarize that the design and development of next generation recycling technologies as a part of this proposal will further stimulate the Wind Energy sector in ND, create more

² https://bismarcktribune.com/news/state-and-regional/govt-and-politics/bill-requires-state-ok-for-wind-turbine-blade-disposal-in-north-dakota/article_77fa97f2-9ccc-11ed-ac65-97166ce26501.html

³ <https://windexchange.energy.gov/states/nd>

⁴ <https://bismarckstate.edu/news/wind-energy-boom/>

wind energy-based jobs, can be directly integrated with different wind mills and will further ND's vision of commercial recycling process. Further details are given in the Invest in America sub-section.

Commercialization Pathway via Public Private Partnerships and Potential for Job Creation: We plan to transition all proposed technologies to TRL levels of 5-6. We plan to install two co-existing pilot plants: a 3D printer to create functional components from thermoset waste and a pilot plant based on IL solvent technology, backed by a solid LCA from two independent researchers. These new plants will require personnel from a diverse workforce, creating a significant number of local jobs. We plan to process a ton of waste/batch after successfully completing pilot testing in Year 3. There are 1,500 turbines with 4,500 blades in the northern plains region that will be upgraded soon, creating significant market potential. Existing local companies, such as LM Wind Power, will also be able to benefit from this technology, expanding their market share and workforce, which will create even more local jobs.

Education Component, Invest in America's Workforce, and Job Creation: Two co-existing pilots will be set up on the University of North Dakota campus for 3D printing and the Ionic Solvent-based recycling process. The proposed research will train at least five graduate students, one post-doc, and one research scientist, and will hire electricians, plumbers, and several other technicians. This project will aid in mitigating the wind power-based waste problem in Grand Forks, where LM Wind Power is located. The green energy sector is growing exponentially; therefore, the project can generate job opportunities for U.S. workers in related skilled and semi-skilled categories. Reputable companies, such as Great River Energy, LM Wind Power, and Strata, support the project since they want to leverage this program to create new opportunities in the Northern Plains region. In addition, the SET-led team has many start-ups and small local business-based companies that are active program participants. The project will popularize sustainability research among different stakeholders and expand America's workforce in Wind Energy. The SHOWUP model envisioned in this program will create an ecosystem for recycling Wind Blades and advance the Wind Turbine industry, significantly bolstering local, state, and US economies. The support

of the North Dakota Industrial Corporation (NDIC) will showcase the importance of the proposed research in generating job opportunities, which is a direct investment in America's workforce at the state level.

BACKGROUND/QUALIFICATIONS

University of North Dakota: Dr. Surojit Gupta, Professor and Director of the Materials Manufacturing Initiative (MMI) at the University of North Dakota (UND), will be the PI from UND. Dr. Gupta will manage the project and lead thermoset utilization and IL optimization efforts. He will be the point of contact between the NDIC, EERE, and other project participants/sponsors. Dr. Gupta has over 15 years of experience in fundamental research, technology development, and commercialization. His research has been consistently supported by the DOE, DOD, Navy, NSF, ND Research Council, ND Corn Council, and Department of Agriculture, and he has managed a multi-million-dollar research portfolio.

Dr. Yun Ji, Professor of Chemical Engineering at UND, will be a Co-PI on this project. Dr. Ji has over 15 years of experience in biochemical engineering and biomass utilization and over 50 peer-reviewed publications. She also has experience in proven chemical design and feasibility studies. Dr. Ji will oversee enzymatic degradation, reactor design, quality control, and CMP implementation.

Dr. Bethany Klemetsrud, Assistant Professor at UND, will be a Co-PI on this project. Dr. Klemetsrud has extensive experience conducting life cycle assessments, collaborating with companies such as the Gas Technologies Institute, and participating in several DOE and NETL projects conducting LCAs.

Dr. Hallie Boyer Chelmo is an Assistant Professor at UND and will serve as a Co-PI on this project. Dr. Chelmo will lead studies on the ice-phobicity behavior of coatings.

Mr. Harry Feilen is the Director of Operations at the Drilling and Completion Lab (DRACOLA) and has over 40 years of experience in construction, fabrication, troubleshooting, and repairing equipment experience.

Mr. Feilen will work on the development of an IL-based and 3D printing plants.

Singularity Energy Technologies, LLC (SET) – Dr. Nikhil Patel, founder and President of SET, is the inventor and patent holder for the sandwich gasifier technology. Dr. Patel has over 25 years of research,

development, and technology commercialization experience in waste-to-energy conversion using thermochemical processes involving combustion and the partial oxidation or gasification of biomass, coal, and unconventional feedstock. Table 1 summarizes the roles of the team members in the SET-led team.

Table 1: Roles of the Team Members

Team Member	Role
Singularity Energy Technologies LLC	UND prime sub-recipient and Objective B Task 2 lead. Owner of Sandwich Gasification patents
Dakota Green Power	Manufacturer of Sandwich gasifier systems
Tri-Steel Manufacturing	Manufacturer of gasifier components through established relationship with DGP and SET and owner of 5 TPD system
City of Grand Forks	Host site for the 5 TPD system
Sage Green N.R.G.	Provide support for permitting, marketing, and communications
MDM Energy Consulting	Provide support for project management, design, and reporting

MANAGEMENT

We summarized the team member roles in the task summary and the project summary chart in Figure 1. UND is the primary recipient. UoI and SET LLC are sub-contractors of the DOE Grant. We have divided the project into Objectives with hierarchic tasks for better management. Each task will be professionally managed and compiled via individual reports every quarter, where we will determine if the quarterly milestones have been fulfilled.

TIMETABLE

Schedule for Interim Report Submission: An interim report will be submitted to the NDIC annually. Quarterly reports will be available upon request.

Task description summary (Table 2 summarizes the GANTT Chart): The work plan is hierarchically structured to fulfill the following objectives: Task 0.A: PI (Gupta) will manage the project and submit reports. Task 0.B: Co-PI (Ji) will oversee Community Management Plan (CMP) implementation.

Tasks for Completing Objective A: Year 1: Task 1.1: Procure Unmanned Aerial Vehicle (UAV)-based digital, ultrasonic, and optical imaging systems and commence wind blade imaging. Task 1.2: Use a transfer learning approach to ML pipeline design for wind turbine damage detection and classification.

Year 2: Task 1.3: Design and develop a collaborative work environment to streamline research between the partner institutions. Year 3: Tasks 1.4-1.5: Enhance the reinforcement learning techniques and train users.

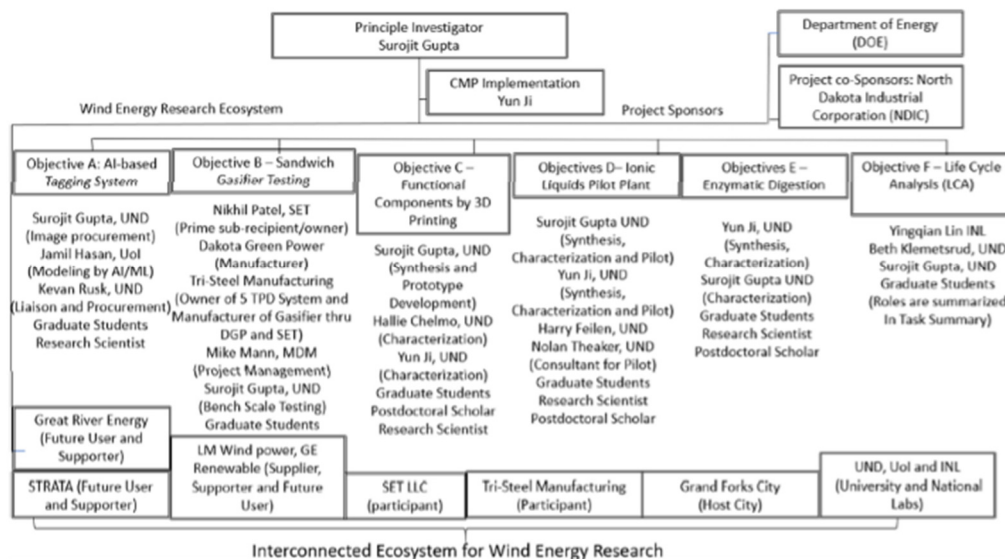


Figure 1: Project Chart summarizing the roles of the PIs

Tasks for completing Objective B: Year 1: Task 2.1: Bench-scale testing of the blade material. Year 2: Task 2.2: Bench-scale testing and 5-ton/day system design modification. Year 3: Task 2.3: 5 ton/day system modification, testing, and reporting.

Tasks for completing Objective C: Year 1: Task 3.1: Mechanically mill wasted cured adhesives and yellow-coded blades to extract thermosets. Task 3.2: 3D-print small-scale coupons using SL. Task 3.3: 3D print small-scale coupons using SLS. Year 2: Task 3.4: Document detailed measurements of the composites' ice phobicity and mechanical, tribological, and microstructural behaviors. Year 3: Task 3.5: Design and manufacture prototype non-wind turbine components in a pilot setting.

Tasks for completing Objective D: Year 1: Task 4.1: Procure and validate batch reactors with a daily process capability of 1 Kg of feedstock. Task 4.2: Perform dissolution kinetics, absorption limits, and characterization of different types of thermosets in ILs by varying IL chemistry. Task 4.3: Perform dissolution kinetics of thermosets by making solutions of ILs and solvents with a boiling point >200°C. Year

2: Task 4.5: Procure and validate a batch reactor that can process 10 Kg of thermosets per batch. Task 4.6: Integrate recycled fibers and polymers into composites. Year 3: Task 4.7: Procure batch reactors with a processing capability of 50 Kg of thermosets per batch and implement a pilot plant.

Tasks for completing Objective E: Year 1: Task 5.1: Identify promising enzymes and conduct lab-scale experiments at 20g/batch. Task 5.2: Characterize degradation products and explore biological degradation pathways. Task 5.3: Optimize reaction conditions to find the highest bioconversion rate. Year

2: Task 5.4: Conduct experiments with selected enzymes at 100g/batch. Task 5.5: Characterize biodegrading products using analytical instruments. Task 5.6: Explore applications for degraded polymers and recycled fibers.

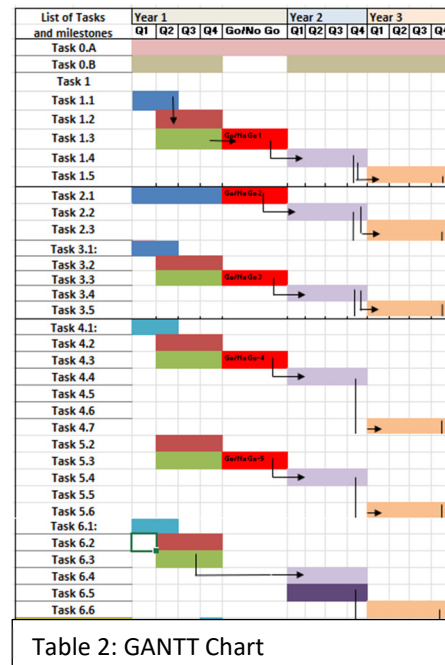
Year 3: Task 5.7: Conduct experiments at 1 kg per day. Task 5.8: Explore the biodegrading process at a level of TRL-4. Task 5.9: Conduct a techno-economic analysis.

Tasks for completing Objective F: Year 1: Task 6.1: Collect initial life cycle assessment data for wind turbine blade production.

Task 6.2: Develop a process model for the proposed recycling

system. Task 6.3: INL will develop a baseline process simulation model using Aspen Plus Year 2: Task 6.4: Conduct a sensitivity analysis to reveal the impacts of specific parameters on the system’s total footprint.

Year 3: Task 6.5: Complete the LCA analysis of SHOWUP holistically.



BUDGET

The DOE has selected this project to receive \$3,000,000 in funding after a highly competitive process. Mr. Reice Hasse from the NDIC has kindly issued a support letter of \$500,000 to support this project as UND’s cost share partner. Table 3 summarizes the NDIC’s cost share for this project on a year-by-year basis.

Table 3: NDIC Cost Share

Project Associated Expense	NDIC's Share (Itemized List)	Applicant's Share (Cash)	Applicant's Share (In-Kind)	Other Project Sponsor's Share
1,330,758 (year 1)	\$193,845 3D Printer-\$81,250; Staff Salary-\$79,855; F&A -\$32,740	Table 5	Table 5	Table 5
1,043,522 (year 2)	\$125,827 Staff Salary: \$74,239 DRACOLA Lease: \$15,000 F&A:\$36,588	Table 5	Table 5	Table 5
1,406,289 (year 3)	\$180,328 Staff and PI (s) salary: \$92,891 Travel:\$5,000; DRACOLA Lease: \$15,000; Professional Fees: \$15001; F&A: \$52,436	Table 5	Table 5	Table 5
Total	\$500,000	NA	\$25,111	\$187,993+67,466

The cost share from the NDIC is vital for successfully completing this project. Tables 4 and 5 list the overall cost share and cost share contributed by different project partners, respectively.

Table 4: Overall cost share

	Federal	Cost Share	Total Costs	Cost Share %
Budget Period 1	\$1,062,693	\$268,065	\$1,330,758	20.14%
Budget Period 2	\$821,300	\$222,222	\$1,043,522	21.30%
Budget Period 3	\$1,116,006	\$290,283	\$1,406,289	20.64%
Total	\$2,999,999	\$780,570	\$3,780,569	20.65%

Table 5: Cost share from different partners

NDIC	Cash	DRACOLA lease; precursor powders for Tasks 3,4, and 5; Research Staff salary for tasks 3 and 4; 3D printer for Task 3	\$193,845	\$125,827	\$180,328	\$500,000
UND	In Kind	5% of salary and fringe for PI, Co-PIs,	\$0	\$25,111	\$0	\$25,111
Tri-Steel Manufacturing	In Kind	Labor and equipment rental	\$52,393	\$48,802	\$86,798	\$187,993
University of Idaho	In Kind	20 % Co-PI salary, associated fringe and F&A	\$21,827	\$22,482	\$23,157	\$67,466

CONFIDENTIAL INFORMATION and PATENTS/RIGHTS TO TECHNICAL DATA

N/A

STATE PROGRAMS AND INCENTIVES

- A. The NDIC Contract No. is FY22-XCVII-242. The title is "Development of Novel Sintered Coal Building Materials." Project length is 10/1/2021 - 2/29/2024; Total amount is \$649,407
- B. R-050-C – Enhanced Sweep Efficiency for Geothermal Renewable Energy Using Bio-Polymer Supplement, PI: Dongmei Wang, co-PI: Dr. Ji, Funding: \$468,877.
- C. Drs. Gupta and Ji are also funded by APUC, ND Corn Council, and ND Soybean Council.

September 28, 2023

Reice Haase, Deputy Executive Director
North Dakota Industrial Commission
State Capitol – 14th floor
600 East Boulevard Avenue, Dept. 405
Bismarck, ND 58505-0840

Subject: "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for Reusing Thermosets and Effectively Recovering Fibers via Mechanical, Thermal, Biological, and Chemical Pathways," Proposal to the Renewable Energy Program by Dr. Surojit Gupta, Principal Investigator

Dear Mr. Haase:

On behalf of the University of North Dakota, I am pleased to write this letter of transmittal for Dr. Surojit Gupta's proposal on "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for Reusing Thermosets and Effectively Recovering Fibers via Mechanical, Thermal, Biological, and Chemical Pathways," for consideration by the NDIC's Renewable Energy Program. Dr. Gupta is an Associate Professor in UND's College of Engineering and Mines, Department of Mechanical Engineering, and is the Principal Investigator for this project. Dr. Gupta is conducting a three-year project with a total requested amount from NDIC of \$500,000. The NDIC funding is being requested as a match to the DOE portion of the project, which has been awarded by DOE for \$2,899,999 with a start date of 10/1/2023.

Please contact Dr. Gupta with any technical questions about the project at (701) 777-1632 or surojit.gupta@und.edu. If the NDIC selects this proposal for an award, please send any award documents and related communications to Sherry Zeman at sherry.zeman@und.edu for processing on behalf of UND.

The \$100 application fee is being handled as an electronic payment by UND and should reach your office in a timely manner. Thank you very much for your consideration of this proposal.

Sincerely yours,



Karen A. Katrinak, Ph.D.
Proposal Development Officer / Authorized Organizational Representative
Research & Sponsored Program Development
Division of Research & Economic Development
(701) 777-2505 / Karen.katrinak@und.edu

Industrial Commission
Tax Liability Statement

Applicant:
University of North Dakota

Application Title:
Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for Reusing Thermosets and Effectively Recovering Fibers via Mechanical, Thermal, Biological, and Chemical Pathways

Program:

- Lignite Research, Development and Marketing Program
- Renewable Energy Program
- Oil & Gas Research Program
- Clean Sustainable Energy Authority

Certification:

I hereby certify that the applicant listed above does not have any outstanding tax liability owed to the State of North Dakota or any of its political subdivisions.



Signature

Karen Katrinak
Proposal Development Officer

Title

September 28, 2023

Date

Appendix A (Supporting Documents):

1. Evidence of submission of remittance
2. Selection by DOE for the Award
3. Support letter from Mr. Reice Hasse from NDIC
4. Support letters from LM Windpower, STRATA and GRE
5. Commitment letters from SET, MDM and other members of the SET-led consortium

Invoice Summary - Supplier Invoice No. SH0WUP-Gupta 092123 (Doc. No. [V3334013](#))

Supplier Invoice No. SH0WUP-Gupta 092123
 Supplier Name INDUSTRIAL COMMISSION,ND

General		Addresses		Note/Attachments		
Invoice Type	Invoice	Remit To		External Note	***** Seq: 1 Payment Ref: 262355 Payment Date: 2023-09-26	
<u>Pay Status</u>	Paid	Remit To Location List	edit	Internal Note	<i>no note</i>	
Invoice Number	V3334013		CAPITOL TOWER 14 FLOOR	External Attachments		
Supplier Invoice No.	SH0WUP-Gupta 092123		600 E BOULEVARD AVENUE	Internal Attachments		
Supplier Name	INDUSTRIAL COMMISSION,ND		BISMARCK, North Dakota 58505			
			USA			
			Address Id 1			
Invoice Owner	Tonya Parton	Bill To				
Business Purpose	Required Grant Application fee for NDIC proposal-Smart Holistic Zero Waste (SH0WUP)	UND PAYMENT SERVICES				
		TWAMLEY HALL ROOM				
		409				
Invoice Date	9/21/2023	264 CENTENNIAL DRIVE				
Discount Date		STOP 8356				
Due Date	9/21/2023	GRAND FORKS, ND				
Terms	0% 0, Net 0	58202-8356				
Terms Discount	0.00 USD	United States				
Invoice Name	2023-09-25 0399535 01					
Bypass Treasury	x					
<u>Invoiced By</u>	Tonya Parton	Payment Information		Discount, Tax, Shipping & Handling		
<u>Match Status</u>	Do Not Match	Accounting	9/25/2023	Discount, tax, shipping & handling		
<u>Invoice Source</u>	Automated	Date		Allocation	Sum of All	
<u>Contains substituted item(s)</u>	x	F.O.B.	FOB Destination or as per executed agreement		Header-	Sum of
Amount Only PO	x	Payment Method	ACH		level	lines
		Payment Record No.	262355	Terms Discount	0.00 USD	
				Discount	0.00 USD	0.00 USD
				Tax 1	0.00 USD	0.00 USD
				Tax 2	0.00 USD	0.00 USD

Origin	<i>no value</i>	Payment	9/26/2023	Shipping	0.00 USD	0.00 USD
Origin Ref Field	<i>no value</i>	Record Date		Handling	0.00 USD	0.00 USD
		Payment Message	<i>no value</i>	Total	100.00 USD	
		Hold Check	x			

Codes					
LINE	Account	Department	Fund - Dept	Project	Program Code
	623155	2725	22619-2725	<i>no value</i>	<i>no value</i>
	Other Professional Fees	Mechanical Engineering	F&A S Gupta		

Line Item Details

J000103557																		
PO Line	Product Description	Catalog No	Size / Packaging	Unit Price	Quantity	Ext. Price												
1	1 Payment Request			100.00 USD	1	100.00 USD												
Business Purpose	Required Grant Application fee for NDIC proposal- Smart Holistic Zero Waste (SHOWUP)	PO Number	J000103557	External Note	<i>no note</i>													
Special Invoice Instructions	None of the above (standard payment by ACH or Check)	PO Department	<i>no value</i>	Internal Note	<i>no note</i>													
		<u>Substitute Item</u>	x	External Line Attachments														
		<u>Line Match Status</u>	Do Not Match	Internal Line Attachments														
		Matching Summary		<u>Discount, tax, shipping & handling.</u>														
			<table border="1"> <thead> <tr> <th></th> <th>Ordered</th> <th>Received</th> <th>Net Invoiced</th> </tr> </thead> <tbody> <tr> <td>Quantity:</td> <td>1</td> <td>--</td> <td>1</td> </tr> <tr> <td>Ext. Price:</td> <td>100.00 USD</td> <td>--</td> <td>100.00 USD</td> </tr> </tbody> </table>		Ordered	Received	Net Invoiced	Quantity:	1	--	1	Ext. Price:	100.00 USD	--	100.00 USD	Discount	Line-level	
	Ordered	Received	Net Invoiced															
Quantity:	1	--	1															
Ext. Price:	100.00 USD	--	100.00 USD															
		Related Documents		Tax 1	0.00 USD													
		Invoices: 0 / Credits: 0 / Receipts: 0		Tax 2	0.00 USD													
				Shipping	0.00 USD													

Contract No.	
Commodity Code	93151517
	License or registration fee
WO/CP Number	<i>no value</i>

Handling	0.00 USD
----------	----------

Subtotal	100.00
Discount	0.00
Tax	0.00
Tax2	0.00
Shipping	0.00
Handling	0.00
Total	100.00 USD

ASSISTANCE AGREEMENT

1. Award No. DE-EE0011014		2. Modification No.	3. Effective Date 10/01/2023	4. CFDA No. 81.086	
5. Awarded To University of North Dakota Attn: John Mihelich 4201 James Ray Drive, Stop 8367 Grand Forks ND 582028367		6. Sponsoring Office Energy Efficcy & Renewable Energy EE-1 U.S. Department of Energy 1000 Independence Avenue, S.W. Washington DC 20585		7. Period of Performance 10/01/2023 through 09/30/2024	
8. Type of Agreement <input type="checkbox"/> Grant <input checked="" type="checkbox"/> Cooperative Agreement <input type="checkbox"/> Other	9. Authority PL 109-58 EPO Act 2005		10. Purchase Request or Funding Document No. 23EE002985		
11. Remittance Address University of North Dakota Attn: UNIVERSITY OF NORTH DAKOTA TWAMLEY HALL CENTENNIAL DRIVE 264 Centennial Drive, Stop 7306 GRAND FORKS ND 582027306		12. Total Amount Govt. Share: \$2,900,000.00 Cost Share : \$780,570.00 Total : \$3,680,570.00	13. Funds Obligated This action: \$2,900,000.00 Total : \$2,900,000.00		
14. Principal Investigator	15. Program Manager Luke Kandris Phone: 720-636-1087		16. Administrator Golden Field Office U.S. Department of Energy Golden Field Office 15013 Denver West Parkway Golden CO 80401		
17. Submit Payment Requests To Payment - Direct Payment from U.S. Dept of Treasury		18. Paying Office Payment - Direct Payment from U.S. Dept of Treasury		19. Submit Reports To	
20. Accounting and Appropriation Data 05450-2022-31-200835-41010-1009209-0000000-0000000-0000000					
21. Research Title and/or Description of Project Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for reusing thermosets and effectively recovering fibers via mechanical, thermal, biological,					
For the Recipient			For the United States of America		
22. Signature of Person Authorized to Sign			25. Signature of Grants/Agreements Officer Signature on File		
23. Name and Title		24. Date Signed	26. Name of Officer Christina Kouch		27. Date Signed 09/27/2023

CONTINUATION SHEET

REFERENCE NO. OF DOCUMENT BEING CONTINUED
DE-EE0011014PAGE OF
2 | 3NAME OF OFFEROR OR CONTRACTOR
University of North Dakota

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	<p>UEI: RSWNKK6J8CF3</p> <p>1. This is a conditional award, comprised of this Assistance Agreement and the Special Terms and Conditions. Upon successful completion of negotiations, this award will be modified to lift its conditional status, to revise the Special Terms and Conditions, and to add additional attachments, such as Attachment 1, Statement of Project Objectives and Milestone Summary Table; Attachment 2, Federal Assistance Reporting Checklist and Instructions; Attachment 3, Budget Information SF-424A; Attachment 4, Intellectual Property Provisions; and Attachment 5, Community Benefits Plan.</p> <p>2. The award was prepared using the proposed budget information in the Recipient's application. Term 1 of the Special Terms and Conditions states that the Recipient is prohibited from spending Federal funds at this time. DOE will not release the funding obligated by this award until successful completion of negotiations are reached to the satisfaction of the Contracting Officer. Performance against this award is, therefore, at the Recipient's own risk, and payments for costs incurred for Recipient's project will not be made until the parties complete negotiations and the Contracting Officer issues a modification to this award.</p> <p>3. A representative of the DOE office will contact the Recipient to request additional and/or revised information needed to supplement and clarify the Recipient's application, to complete the negotiations of an amended award.</p> <p>In Block 7 of the Assistance Agreement, the Period of Performance reflects the beginning of the Project Period through the end of the current Budget Period.</p> <p>Additional future DOE funding and additional budget periods are not contemplated under this award. Funding for all awards and future budget periods is contingent upon the availability of funds appropriated by Congress for the purpose of this program and the availability of future-year budget authority.</p> <p>The total amounts reflected in Blocks 12 and 13 of the Assistance Agreement do not include the</p> <p>Continued ...</p>				

CONTINUATION SHEET	REFERENCE NO. OF DOCUMENT BEING CONTINUED	PAGE	OF
	DE-EE0011014	3	3

NAME OF OFFEROR OR CONTRACTOR
University of North Dakota

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	<p>Federally Funded Research and Development Center (FFRDC) funding amount of \$100,000, which was funded directly.</p> <p>DOE Award Administrator: Wilma (Amy) Abalos E-mail: wilma.abalos@ee.doe.gov Phone: 240-562-1338</p> <p>DOE Project Officer: Luke Kandaris E-mail: luke.kandaris@ee.doe.gov Phone: 720-636-1087</p> <p>Recipient Business Officer: Karen Katrinak E-mail: Karen.katrinak@und.edu Phone: 701-777-2505</p> <p>Recipient Principal Investigator: Surojit Gupta E-mail: surojit.gupta@und.edu Phone: 701-777-1632</p> <p>"Electronic signature or signatures as used in this document means a method of signing an electronic message that-- (A) Identifies and authenticates a particular person as the source of the electronic message; (B) Indicates such person's approval of the information contained in the electronic message; and, (C) Submission via FedConnect constitutes electronically signed documents." ASAP: YES Extent Competed: COMPETED Davis-Bacon Act: NO PI: Gupta, Surojit Fund: 05450 Appr Year: 2022 Allottee: 31 Report Entity: 200835 Object Class: 41010 Program: 1009209 Project: 0000000 WFO: 0000000 Local Use: 0000000</p>				



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

May 2, 2023

Dr. Surojit Gupta
Associate Professor
Advanced Materials Research Group
Dept. of Mechanical Engineering
University of North Dakota
243 Centennial Drive
Grand Forks, ND

Re: Support for the proposal entitled "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for reusing thermosets and effectively recovering fibers via mechanical, thermal, biological, and chemical pathways" submitted in response to U.S. Department of Energy funding opportunity DE-FOA-0002960

Dear Dr. Gupta,

Please accept this letter of support for the University of North Dakota's (UND) proposal entitled "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for reusing thermosets and effectively recovering fibers via mechanical, thermal, biological, and chemical pathways".

The North Dakota Industrial Commission (NDIC) Renewable Energy Program's mission is to promote the growth of North Dakota's renewable energy industries through research, development, marketing, and education. The proposed effort aims to study the integration of smart blade sorting using advanced imaging and machine learning, sandwich gasifiers, recycled thermoset-based structures, and enzymatic-based technologies into a single platform. This scope of work aligns with the Renewable Energy Program's mission.

This project is eligible for up to \$500,000 of cash cost share from the Renewable Energy Program. Support is contingent on submittal of a proposal to the NDIC and subsequent proposal approval by both the Renewable Energy Council and the NDIC.

If successful, this project will provide a valuable resource for our nation's renewable energy industry. Thank you for working to advance North Dakota's clean energy goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Reice Haase".

Reice Haase, Deputy Executive Director



12300 Elm Creek Boulevard
Maple Grove, Minnesota 55369-4718
763-445-5000
greatriverenergy.com

May 16, 2023

Dr. Surojit Gupta
Associate Professor
Department of Mechanical Engineering
University of North Dakota

Re: Letter of Interest in the University of North Dakota application entitled “Smart Holistic Zero Waste Utilization Paradigm (SHOWUP) for reusing thermosets and effectively recovery fibers via mechanical, thermal, biological, and chemical pathways.”

Dear Dr. Gupta,

Great River Energy is pleased to provide this letter of interest in support of your team’s application to the U.S. Department of Energy to demonstrate a novel technology to cost-effectively reuse materials in end-of-life wind turbine blades.

Great River Energy is a not-for-profit generation and transmission electric cooperative, headquartered in Maple Grove, Minnesota. Together with our 27 member-owner distribution cooperatives and customers, we provide reliable and affordable electricity to 1.7 million people. Great River Energy’s power supply portfolio has transformed over the past decade, and our cooperative now has power purchase agreements for the output of nine wind facilities located throughout Minnesota, North Dakota, South Dakota, and Iowa.

Great River Energy believes in the responsible use of natural resources, including maximizing the useful life of materials in wind turbine blades. Based on discussion with members of your team, we feel your technology has significant commercial potential and we plan to follow the progress of your development and demonstration efforts.

We wish you luck in your proposal to the Department of Energy and look forward to following your project going forward.

Sincerely,

GREAT RIVER ENERGY

A handwritten signature in black ink, appearing to read 'David Saggau', with a long horizontal flourish extending to the right.

David Saggau
President and Chief Executive Officer

05/09/2023

DOE Program Manager,

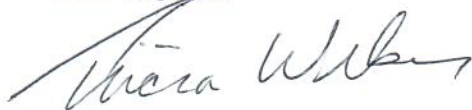
LM Wind Power, a GE Renewable Energy business, would like to support the proposal titled, "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP)" for reusing thermosets and effectively recovering fibers via mechanical, thermal, biological, and chemical pathways".

LM Wind Power is a leading supplier of blades for wind turbines, offering blade development, manufacturing, service, and logistics. Approximately one in five turbines installed around the world are LM Wind Power blades. To keep our leading position LM Wind Power is keen on innovating their product and processes. Key to future sustainable business is the need for manufacturing zero waste blades by 2030. To meet this strategy, it means developing a way to utilize all excess materials from manufacturing.

The proposal is very timely as it envisions a zero-waste paradigm by using a collaborative model to solve a challenging problem of recycling thermoset waste both during manufacturing and post-manufacturing. Research and development of wind turbine research and utilization cluster in the University of North Dakota will be beneficial to us as it will create pathways for thermoset reutilization and recycling which tunes well with our own recycling and sustainability efforts. In addition, there is an urgent requirement of trained manufacturing engineers in the plant. This program has the potential to create pilot facilities and provide work force trained in different aspects of wind blade manufacturing who could join our plant in the future.

We are excited to support this proposal and hope to see results that benefit our world-wide wind power business.

Best Regards,



Tricia Weber
Sr Manufacturing Staff Manager



May 11, 2023

Mr. Kevan Rusk

Director of Business Development
College of Engineering and Mines
University of North Dakota

RE: "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP)

I have genuine interest in the research as described in the proposal entitled, "Smart Holistic Zero Waste Utilization Paradigm (SHOWUP). The reuse of thermosets and effectively recovering fibers via mechanical, thermal, biological, and chemical pathways has great merit.

The proposal is very timely as it envisions a zero-waste paradigm by using a collaborative model to solve a challenging problem of recycling thermoset waste, both during and after manufacturing. We are very interested to evaluate the recycled fibers from the pilot testing for construction-based applications.

The environmental benefits: saving natural resources, using recycled materials, and reducing pollution and greenhouse gas emissions will contribute to the concrete construction industries efforts for building sustainable projects.

Thank you for your consideration in this matter.

Henry Hauge | Director of Technical Services

STRATA CORPORATION

p: 701-277-1432 c: 701-238-6556

e: hank.hauge@stratacorporation.com

102 12th Ave NW | West Fargo, ND 58078



May 9, 2023

Dr. Surojit Gupta,
Associate Professor and Director of Materials Manufacturing Initiative (MMI)
Department of Mechanical Engineering
University of North Dakota

Subject: Letter of Commitment from Singularity Energy Technologies in support of the University of North Dakota's response to U.S. Department of Energy DE-FOA-0002960

Dear Dr. Gupta,

I am happy to provide support for your proposed project to the U.S. Department of Energy in response to DE-FOA-0002960. Singularity Energy Technologies (SET) is the inventor of the Sandwich gasifier and has been working diligently the past several years to fully commercialize the technology. SET has developed a strong supporting team over time and continues to work with this team on projects such as that proposed herein. Our team can assist you in meeting the goals of your project, specifically those in support of Objective B as outlined in your proposal.

I have worked closely with you to develop the workplan for Objective B and have read SET's commitments as presented in your final proposal to DOE. We fully support the three subtasks outlined in the proposal, namely Task 2.1 Bench-Scale Testing of the Blade Material; Task 2.2 Bench-Scale Testing and 5 ton/day System Design Modification; and Task 2.3 5 ton/day System Modification, Testing and Reporting. We will perform our tasks in accordance to the attached schedule and milestones. The start date of our work and sub-task timeline will be adjusted as needed to match the start date of your project if an award is made by DOE.

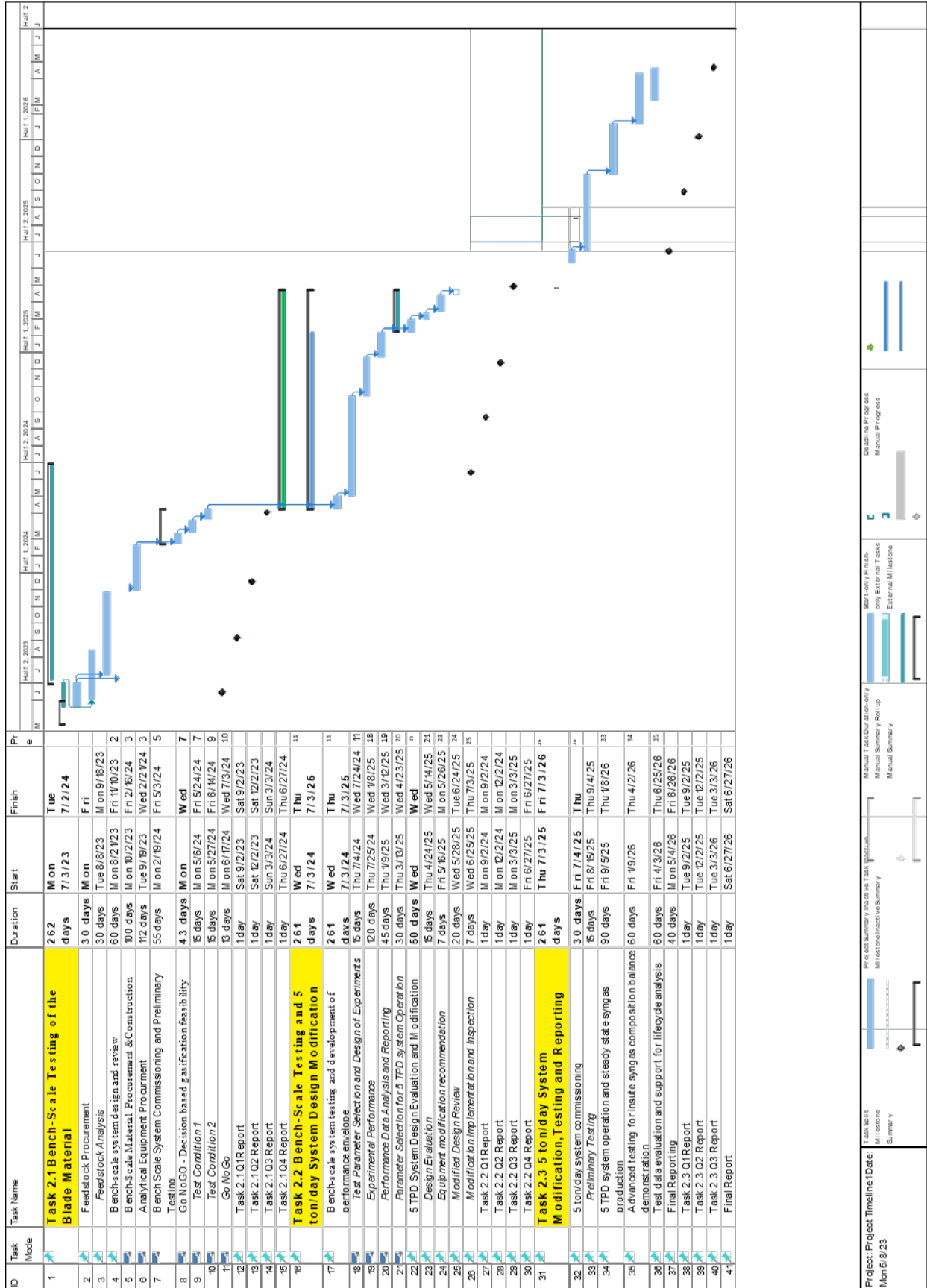
The total cost of the services provided is \$939,968. SET will provide a portion of these services to UND as in-kind cost share towards the DOE cost-share requirements. As presented in the attached Budget Justification workbook, this represents a cost to DOE of \$751,975 with a cost share commitment from SET (met by our subrecipient Tri-Steel Manufacturing) of \$187,993.

We are looking forward to working with you on this important and exciting project.

Sincerely,



Nikhil Patel
President, Singularity Energy Technologies, LLC



Project: Project Timeline Date: Mon 5/8/23

Task Split (Milestone Summary)

Project Summary (Milestone Summary)

Manual Task Duration (Milestone Summary)

Barstock Procurement (Milestone Summary)

Design Evaluation (Milestone Summary)

Final Report (Milestone Summary)

Deadline Progress (Milestone Summary)

Manual Progress (Milestone Summary)

Dr. Edwin S. Olson

Phone: 701 330 2522

Email: eolson@gra.midco.net

May 7, 2023

Dr. Nikhil Patel
President, Singularity Energy Technologies
4200 James Ray Drive
Grand Forks, ND 58202

Subject: Letter of Commitment for the Singularity Energy Technologies proposal to the University of North Dakota in response to U.S. Department of Energy DE-FOA-0002960

Dear Dr. Patel,

I am happy to provide support for your proposed project to the University of North Dakota's proposal to the U.S. Department of Energy in response to DE-FOA-0002960. I feel the experience I gained during my many years working with the Energy & Environmental Research Center provide me with an excellent background to assist you with development and implementation of a strong analytical plan.

I am committing to provide consulting support in chemistry at a fee of \$1000 for budget period one and \$2000 each for budget periods two and three (\$5000 total). I have reviewed your proposal and detailed budget and agree with the allocation of my time between tasks and the roles as described in the Project Management Plan.

Sincerely,



Edwin S. Olson
Principal Scientific Advisor
Singularity Energy Technologies, LLC

mdm energy consulting, llc

701.215.2900 • mike.mann@mdmenergy.net • thompson, nd

May 7, 2023

Dr. Nikhil Patel
President, Singularity Energy Technologies
4200 James Ray Drive
Grand Forks, ND 58202

Subject: Letter of Commitment for the Singularity Energy Technologies proposal to the University of North Dakota in response to U.S. Department of Energy DE-FOA-0002960

Dear Dr. Patel,

I am happy to provide support for your proposed project to the University of North Dakota's proposal to the U.S. Department of Energy in response to DE-FOA-0002960. I feel the experience I gained during my 18 years working with the Energy & Environmental Research Center and the 23 years with the College of Engineering and Mines provide me with an excellent background to assist you with the overall project management of your proposed efforts including development and execution of your testing campaign and support with report writing.

I am committing one month of my time per year for a total of 519 hours in support of your proposed project in accordance to the attached budget. I have reviewed your proposal and detailed budget and agree with the allocation of my time between tasks and the roles as described in the Project Management Plan.

Sincerely

Michael D. Mann

Michael D. Mann
Principal
MDM Energy Consulting LLC



mdm energy consulting, llc

701.215.2900 • mike.mann@mdmenergy.net • thompson, nd

Support for Singularity Energy Technologies proposal to the University of North Dakota in response to U.S. Department of Energy DE-FOA-0002960.

Budget Period 1: 173 hours at \$150/hr for a total of \$25,950

Budget Period 2: 173 hours at \$150/hr for a total of \$25,950

Budget Period 3: 173 hours at \$150/hr for a total of \$25,950

Total Cost: \$77,850

Note: Any travel costs will be paid directly by SET or UND





May 8, 2023

Dr. Nikhil Patel
President, Singularity Energy Technologies
4200 James Ray Drive
Grand Forks, ND 58202

Subject: Letter of Commitment for the Singularity Energy Technologies proposal to the University of North Dakota in response to U.S. Department of Energy DE-FOA-0002960

Dear Dr. Patel,

I am happy to provide support for the University of North Dakota's project proposal to the U.S. Department of Energy in response to DE-FOA-0002960. I will use my connections and expertise to procure the windmill blades required for the proposed work, provide support developing analytical protocols, analyzing data, report writing, and will use my connections to develop relationships with long-term customers and identify potential buyers of your technology.

I will commit 12% of my time per year for each of the annual budget periods at a fee of \$10,000 per year (\$30,000 total). I have reviewed your proposal and detailed budget and agree with the allocation of my time between tasks and the roles as described in the Project Management Plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Ralston", with a horizontal line extending to the right.

Dr. Nicholas Ralston
Director, Sage Green NRG
Nick.Ralston@SageGreenNRG.com
218-791-2838

May 7, 2023

Dr. Nikhil Patel
President, Singularity Energy Technologies
4200 James Ray Drive
Grand Forks, ND 58202

Subject: Letter of Commitment for the Singularity Energy Technologies proposal to the University of North Dakota in response to U.S. Department of Energy DE-FOA-0002960

Dear Dr. Patel,

I am happy to provide support for your proposed project to the University of North Dakota's proposal to the U.S. Department of Energy in response to DE-FOA-0002960. My experience over the years educating, as well as learning from, entrepreneurs, strategists, and family business leaders, provide me with an excellent background to assist you with the development of a strong business plan for your technology.

In consideration of my time, I accede to a fee of \$2500 per year (\$5000 total) for each of budget periods two and three. I have reviewed your proposal and detailed budget and agree with the allocation of my time between tasks and the roles as described in the Project Management Plan.

Sincerely,



Sanjay Goel, PhD
3700 Ruemmele Rd Apt 300
Grand Forks ND 58201



INDUSTRIAL COMMISSION OF NORTH DAKOTA
RENEWABLE ENERGY PROGRAM

TECHNICAL REVIEWERS' RATING SUMMARY

R-052-B

PRAIRIE HORIZON CARBON MANAGEMENT HUB

Principal Investigator: Kevin C. Connors

Request for \$100,000 Total Project Costs \$3,225,000

TECHNICAL REVIEWERS' RATING SUMMARY						
R-052-B						
PRAIRIE HORIZON CARBON MANAGEMENT HUB						
Principal Investigator: Kevin C. Connors						
Request for \$100,000 Total Project Costs \$3,225,000						
Rating Category	Weighting Factor	Technical Reviewer				Average Weighted Score
		1B	2B	3B	4B	
1. Objectives	9	2	4	5	5	36.00
2. Achievability	9	4	5	3	4	36.00
3. Methodology	7	2	4	3	5	24.50
4. Contribution	7	1	5	4	5	26.25
5. Awareness	5	4	5	1	5	18.75
6. Background	5	3	5	4	5	21.25
7. Project Management	2	4	4	2	5	7.50
8. Equipment Purchase	2	5	5	5	5	10.00
9. Facilities	2	3	5	3	5	8.00
10. Budget	2	3	4	4	4	7.50
Average Weighted Score		140	230	174	239	195.75
Maximum Weighted Score						250.00

- The objectives or goals of the proposed project with respect to clarity and consistency with North Dakota Industrial Commission/Renewable Energy Council goals are: 1 – very unclear; 2 – unclear; 3 – clear; 4 – very clear; or 5 – exceptionally clear.**

Reviewer 1B (Rating 2)

Of the six goals and purposes listed in the Mission Statement of the North Dakota Industrial Commission Renewable Energy Council, this proposal may only meet the goal of promoting public awareness if the collection and storage of carbon dioxide qualifies as a renewable energy industry. Otherwise, this proposal is seeking funding for only 3.1% of the total projected cost of this project mostly for public relations and clerical work.

Reviewer 2B (Rating 4)

The objectives are very clear. The general project deliverables are a local well-bore integrity study, preliminary engineering study for underground storage for products such as CO₂ storage, and to provide community outreach/engagement.

These project objectives are consistent with the NDIC/REC overall goals.

Reviewer 3B (Rating 5)

The NDIC/REC goals are directly aligned with this project. ND will benefit greatly from the eventual development of this work.

Reviewer 4B (Rating 5)

The primary objective of this proposed effort is to provide technical assistance and engagement for a prospective large-scale CO₂ storage hub, with emphasis on community outreach and public engagement activities that will support better understanding of the social landscape of the region in which the storage hub would be developed. As the two sources identified are an existing renewable diesel facility and a proposed Hydrogen production facility. This clearly is consistent with the goals of the NDIC/Renewable Energy Council.

- 2. With the approach suggested and time and budget available, the objectives are: 1 – not achievable; 2 – possibly achievable; 3 – likely achievable; 4 – most likely achievable; or 5 – certainly achievable.**

Reviewer 1B (Rating 4)

Though it is not exactly clear how this requesting funding specifically will be utilized for this project, the cited time table seems reasonable and the proposal is well funded by other sources.

Reviewer 2B (Rating 5)

The timeline appears to be achievable within the proposed budget.

Reviewer 3B (Rating 3)

The outreach is the largest unknown from a scope perspective. It could be that community reaction will require more effort than expected. Of course, the outreach could just be terminated without a full understanding of the effort required in moving forward.

Reviewer 4B (Rating 4)

The proposed approach I believe will most likely lead to a successful project. The budget is highly leveraged with the NDIC only providing \$100,000 of a Budget of over \$3.2 million with the other funds already committed from federal and industrial sources. This reinforces my belief that the budget is sufficient for a successful project.

- 3. The quality of the methodology displayed in the proposal is: 1 – well below average; 2 – below average; 3 – average; 4 – above average; or 5 – well above average.**

Reviewer 1B (Rating 2)

The proposal is unclear as to how the requested funding will be utilized and what cannot be accomplished if the funding is not provided.

Reviewer 2B (Rating 4)

The methodology appears to be in place to achieve the stated goals of the proposal.

Reviewer 3B (Rating 3)

The methodology appears to be adequate for the work that is involved. The methodology is sound and addresses the issues expected. It does not address new issues that may arise during the outreach phase.

Reviewer 4B (Rating 5)

The proposer in this project is the EERC. This group is widely accepted as the “authority” on the opportunity for CO₂ geologic storage in this region. With that in mind, I am very confident that the methodology noted will lead to a successful project.

- 4. The scientific and/or technical contribution of the proposed work to specifically address North Dakota Industrial Commission/Renewable Energy Council goals will likely be: 1 – extremely small; 2 – small; 3 – significant; 4 – very significant; or 5 – extremely significant.**

Reviewer 1B (Rating 1)

There does not appear to be any scientific and/or technical contributions cited in this proposal.

Reviewer 2B (Rating 5)

The feasibility study, specifically the wellbore integrity analysis will provide additional CCUS opportunities in the SW region on ND but also to other oil & gas producing areas. The community outreach proposed address deficiencies in recent CO₂ transportation projects.

Reviewer 3B (Rating 4)

The contribution of the proposed work addresses the goals the of the NDIC/REC. How the actual work actually results in the expected benefits is yet to be determined.

Reviewer 4B (Rating 5)

The Governor of the state of North Dakota has established a goal of being carbon neutral by 2030. In addition, the state strongly endorses an all of the above energy strategy. To achieve both of these goals the state must explore and exploit carbon storage. That is exactly what this project does for the state and the country.

- 5. The principal investigator’s awareness of current research activity and published literature as evidenced by literature referenced and its interpretation and by the reference to unpublished research related to the proposal is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.**

Reviewer 1B (Rating 4)

I spent several years designing, installing and operating a carbon capture system at a coal fired power plant.

Reviewer 2B (Rating 5)

The PI’s of this project have superior knowledge of the current research activity.

Reviewer 3B (Rating 1)

There is no evidence cited to establish the PI’s awareness of current related research activity or published literature or other research that is yet unpublished.

Reviewer 4B (Rating 5)

The team assembled is widely accepted as world class when it comes to design of safe and effective storage of CO₂. Their work has already noted that North Dakota has what is considered ideal geology for safe and effective storage. They are a major source of the published literature in this field.

6. The background of the investigator(s) as related to the proposed work is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.

Reviewer 1B (Rating 3)

I have interfaced with media in the past when it comes to carbon capture projects and power plant construction. I have participated with governmental task forces in the USA and foreign countries when it involved carbon capture and storage.

Reviewer 2B (Rating 5)

As stated above in section 5, the PI's have the experience and resources to complete the goals of the proposal.

Reviewer 3B (Rating 4)

Those participating appear to have backgrounds that can adequately support this work. It would be helpful to know of past work of the participants in community outreach that addressed unexpected input from stakeholders.

Reviewer 4B (Rating 5)

The assembled staff has demonstrated the knowledge necessary for the proposed work.

7. The project management plan, including a well-defined milestone chart, schedule, financial plan, and plan for communications among the investigators and subcontractors, if any, is: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – very good; or 5 – exceptionally good.

Reviewer 1B (Rating 4)

All of the cited tasks in this proposal are well described and illustrated on a timeline along with the individual responsible.

Reviewer 2B (Rating 4)

Project mgt. plan included who is doing what and why along with a general proposed timeline. Internal and extern meetings are planned, but no schedule is given or stated they will be done on an as-needed basis. Additionally, a budget is included, but there is no proposed spend schedule.

Reviewer 3B (Rating 2)

There is a schedule though it can hardly be called a milestone schedule. A bar chart that runs from beginning to end is not acceptable. There is no detail involved.

Similarly, there is no financial plan other than the source of funds. Expenditures are not tied to the (non-existent) milestones. Nor is a cash flow offered.

Also, no management plan is offered other than a reporting schedule which is also inadequate.

Surely the Department of Energy requires more detail that is present here.

Reviewer 4B (Rating 5)

The proposal includes a detailed set of milestones that will allow the sponsors to monitor the progress of the proposed work. Plans for communication within the team and to the sponsors is noted.

- 8. The proposed purchase of equipment is: 1 – extremely poorly justified; 2 – poorly justified; 3 – justified; 4 – well justified; or 5 – extremely well justified. (Circle 5 if no equipment is to be purchased.)**

Reviewer 1B (Rating 5)

No equipment is to be purchased.

Reviewer 2B (Rating 5)

No Equipment to be purchased.

Reviewer 3B (Rating 5)

No comments.

Reviewer 4B (Rating 5)

No equipment will be purchased.

- 9. The facilities and equipment available and to be purchased for the proposed research are: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – notably good; or 5 – exceptionally good.**

Reviewer 1B (Rating 3)

There is not any research conducted within the scope of this proposal. The facilities to be utilized are existing at the time of the proposal.

Reviewer 2B (Rating 5)

The EERC has the facilities and equipment available to perform the tasks stated in the proposal.

Reviewer 3B (Rating 3)

The physical requirements of the proposed work appear to be well met based on the description of the proposal.

Reviewer 4B (Rating 5)

The EERC is widely respected as a leading expert in carbon storage and has the facilities as well as staff to successfully complete a project such as the one proposed here.

- 10. The proposed budget “value”¹ relative to the outlined work and the financial commitment from other sources² is of: 1 – very low value; 2 – low value; 3 – average value; 4 – high value; or 5 – very high value. (See below)**

Reviewer 1B (Rating 3)

The private financial support is more than six times the amount requested which readily meets the requirements of the NDIC. The projected and technical outcome is poor as this proposal does not involve any research.

Reviewer 2B (Rating 4)

The long-term data analyses on well-bore integrity could be invaluable. It may also serve as a blueprint for other areas of oil & gas production for alternate uses. The education/outreach and portion of the

project could pave the way for additional projects for the region with respect to public expectations management.

Additionally, the project does have a high amount of federal and private funds compared to the NDIC request.

Reviewer 3B (Rating 4)

The successful results of the project provide high value and are an integral part of any large project being undertaken. The unsuccessful results also have value in showing limitations that were unknown.

Reviewer 4B (Rating 4)

The proposed activity is estimated to cost \$3,250,000. Of this total the team is requesting \$100,000 from the NDIC/Renewable Energy Council. The level of cost share offers excellent value for the State of North Dakota.

Section C. Overall Comments and Recommendations:

Please comment in a general way about the merits and flaws of the proposed project and make a recommendation whether or not to fund.

Reviewer 1B

This public relations and record searching project is well funded by other sources and has support from high-ranking political individuals in North Dakota. So, from the political aspect, it will be difficult to turn down this proposal. However, consideration should be given to the incompleteness of this request. The proposal outlines the overall project but does not give any indication why the funding from the NDIC is necessary. The proposal does not fulfil any of the goals and purposes cited in the mission statement of the NDIC. The proposal fails to meet any of the grant priority bullet points of the NDIC. Because this proposal fails to illustrate why support from the NDIC is necessary and it has very little to do to help meet the goals and purposes of the NDIC, I am recommending the NDIC does not fund this proposal.

Reviewer 2B

The merits of the project are that it has the potential to provide the framework for significant investment in ND underground storage resources by making the energy output of the state's resources (both legacy and renewable) more marketable to the general US & global population.

The proposal did not state the source of the CO₂ or other injectable projects.

Reviewer 3B

I recommend the project for approval.

There are significant deficiencies in the proposal (see the specific comments above) that would suggest the proposal be not endorsed. However, based on previous work with the DoE, those deficiencies are likely addressed in the DoE application.

It is unfortunate that the PIs feel it unnecessary to offer reports on a more timely basis to allow for the constructive review of the project status and the need for adjustments.

Reviewer 4B

This reviewer strongly recommends funding for the proposed project “Prairie Horizon Carbon Management Hub”. As stated earlier in my comments, in order to achieve the Governor’s goal of carbon neutrality by 2030 with an all of the above strategy, the state must aggressively exploit carbon storage with the tremendous geologic storage options available in the state. This project will be critical to the carbon management required to achieve the carbon neutrality goal established by the governor.

In addition, the recent announcement of the EERC success in receiving a nearly \$1 B award for a Hydrogen Hub that included funding for the Hydrogen production facility in North Dakota. This is for the hydrogen facility discussed as “proposed “in this proposal.

With that award and successful completion of this activity, the pieces will be in place for nearly \$2 billion in North Dakota for a hydrogen production facility in North Dakota with a very low carbon footprint!



October 2, 2023

Mr. Reice Haase
Deputy Executive Director
North Dakota Industrial Commission
State Capitol – 14th Floor
600 East Boulevard Avenue, Department 405
Bismarck, ND 58505-0840

Dear Mr. Haase:


Subject: EERC Proposal No. 2024-0035 Entitled “Prairie Horizon Carbon Management Hub”

The Energy & Environmental Research Center (EERC) of the University of North Dakota (UND) is pleased to submit the subject proposal to the North Dakota Industrial Commission Renewable Energy Program.

The EERC, a research organization within UND, an institution of higher education within the state of North Dakota, is not a taxable entity; therefore, it has no tax liability. The EERC is committed to completing the project on schedule and within budget should the Commission approve the requested grant.

The \$100 application fee for this proposal is provided through ACH Transaction Number 262355. If you have any questions, please contact me by telephone at (701) 777-5236 or by email at kconnors@undeerc.org.

Sincerely,

DocuSigned by:

1D14EF7CF3CD456...
Kevin C. Connors
Assistant Director for Regulatory Compliance
and Energy Policy

Approved by:
DocuSigned by:
 for
C7560BF2E06C43B...
Charles D. Gorecki, CEO
Energy & Environmental Research Center

c: Karen Tyler, North Dakota Industrial Commission



Renewable Energy Program

North Dakota Industrial Commission

Application

Project Title: Prairie Horizon Carbon Management Hub

Applicant: Energy & Environmental Research Center (EERC), University of North Dakota;
EERC Proposal No. 2024-0035

Principal Investigator: Kevin C. Connors

Date of Application: October 2, 2023

Amount of Request: \$100,000

Total Amount of Proposed Project: \$3,225,000

Duration of Project: 24 months

Point of Contact (POC): Kevin C. Connors

POC Telephone: (701) 777-5236

POC Email: kconnors@undeerc.org

POC Address: 15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

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ABSTRACT

The project team has defined a regional carbon management (CM) hub area in southwestern North Dakota—the Prairie Horizon Carbon Management Hub (PHCMH)—with a prospective stacked CO₂ storage resource of at least 100 million tonnes (Mt). Two stationary CO₂ sources with a combined annual total emission of over 5 Mt are identified as potential contributors to the CO₂ storage hub. The sources include an existing renewable diesel facility and a planned H₂ production facility. The PHCMH is needed to catalyze meaningful investment in new, clean H₂ energy technology that can diversify North Dakota’s economy, leverage and expand use of North Dakota’s vast natural and agricultural resources, and materially reduce the carbon intensity of the state’s economy.

Objective: The primary objective of this proposed effort is to provide technical assistance and engagement for a prospective large-scale CO₂ storage hub, with emphasis on community outreach and public engagement activities that will support better understanding of the social landscape of the region in which the storage hub would be developed. **Expected Results:** The project will support the Renewable Energy Program’s (REP’s) mission to foster the development of renewable energy and related industrial use technologies through research, development, demonstration, and commercialization. The proposed

project will provide the technical assistance and stakeholder engagement for a large-scale CO₂ storage hub with emphasis on improved understanding of stakeholder concerns, community attitudes, and public acceptance of carbon capture, utilization, and storage associated with the existing renewable diesel facility and a planned H₂ production facility. The proposed hub would store CO₂ captured from these two facilities and would assist in the commercial deployment of clean H₂ energy that can diversify North Dakota's economy, leverage existing energy resources, create sustainable jobs, and reduce the environmental footprint of energy production and use in the region and beyond.

Duration: 24 months, with an anticipated start date of November 1, 2023. **Total Project Cost:** \$3,225,000, with \$100,000 from the North Dakota Industrial Commission Renewable Energy Program, up to \$625,000 in cash cost share from Prairie Horizon Hydrogen (Marathon Petroleum Corporation and TC Energy), and \$2.5M from the U.S. Department of Energy (DOE) National Energy Technology Laboratory (NETL). **Participants:** North Dakota Industrial Commission Renewable Energy Program, UND EERC, Marathon Petroleum Corporation, TC Energy, DOE NETL, and UND Nistler College of Business and Public Administration.

PROJECT DESCRIPTION

Introduction: The Energy & Environmental Research Center (EERC) has worked in collaboration with Marathon Petroleum Corporation (MPC) and TC Energy (TCE) to leverage U.S. Department of Energy (DOE) funds to help facilitate carbon reduction strategies across their portfolio, which includes energy transport, petroleum refining, renewable fuel manufacture, and hydrogen production. MPC and TCE, partnering as Prairie Horizon Hydrogen, are conducting a front-end engineering design (FEED) for a clean hydrogen (H₂) production facility and assessing the opportunity for a regional H₂ hub. This proposed project would assess the viability of a carbon dioxide (CO₂) storage hub to support Prairie Horizon Hydrogen's decarbonization goals.

North Dakota is an ideal candidate for this proposed project. As of September 2023, the North Dakota Industrial Commission (NDIC) has approved five CO₂ storage facility permit applications (one for the Red Trail Energy [RTE] ethanol plant, two for Minnkota Power Cooperative's Project Tundra, one for Dakota Gasification Company's Great Plains Synfuels Plant, and one for Blue Flint Sequester Company, LLC), with an additional permit application pending. Several other announced projects will be pursuing CO₂ storage permits to manage emissions from existing ethanol plants and a coal-fired power plant as well as a H₂ production hub that is in the early planning stages of development. In addition to being a key technology in addressing global CO₂ emissions, carbon capture, utilization, and storage (CCUS) will provide significant economic opportunities for the state of North Dakota. Deployment of CCUS technology is an emerging opportunity that has the potential to create tens of thousands of skilled, high-paying jobs in the state while securing the future of North Dakota's energy and agriculture economies.

Objectives: The primary objective of this proposed effort is to provide technical assistance and stakeholder engagement for a prospective large-scale CO₂ storage hub, with emphasis on community outreach and public engagement activities that will support improved understanding of stakeholder concerns, community attitudes, and public acceptance of CCUS. The project team has defined a regional carbon management (CM) hub area in southwestern North Dakota—the Prairie Horizon Carbon Management Hub (PHCMH)—with a prospective CO₂ stacked storage resource of at least 100 million tonnes (Mt). The proposed hub would store CO₂ captured from an existing renewable diesel facility and a planned H₂ production facility, further decarbonize both renewable diesel and hydrogen, strengthen demand for oil-seed crops, and create a framework for future carbon storage in North Dakota.

Although CCUS deployment has momentum in North Dakota, a variety of technical, policy, and stakeholder engagement aspects still need to be addressed. In the technical realm, there are questions about how operators can optimize CO₂ storage and account for potential pressure impacts from neighboring projects. From a policy standpoint, outstanding questions focus on how mineral rights and

pore space rights can be reconciled in areas where both CO₂ storage and oil and gas production are technically feasible. Other questions about federal policies and regulations will come into play for CCUS development on federal lands. In the area of public perception, the concept of CCUS deployment in North Dakota has recently been getting more attention in the media, highlighting knowledge gaps and misconceptions regarding the safety and effectiveness of CCUS, the role of government in its development and regulation, and the overall benefits of CCUS for all North Dakota citizens.

With these factors in mind, the project team proposes to conduct activities to 1) thoroughly examine local, state, and federal policies, as well as legal frameworks, that may be applied to questions of mineral rights and pore space ownership; 2) engage stakeholders through the development and implementation of a community benefits plan (CBP) that supports public engagement and dialogue activities, including providing technical assistance and resources to communities related to CM; and 3) address technical issues that could facilitate the eventual deployment of the PHCMH.

Methodology: The project will be organized into five tasks. The task structure is identical to that in the matching proposal that was awarded by DOE's Office of Fossil Energy and Carbon Management (FECM).

Task 1 – Project Management and Reporting

This effort is expected to require significant oversight by EERC personnel throughout the project duration to coordinate each part of the overall study so that results from each task best inform the next. Task 1 will include all reporting to project sponsors, including quarterly reports and the final report. Results will be provided in project reports and meetings with NDIC and will be shared at one or more technical conferences.

Task 2.0 – Community Benefits Plan

Task 2 work will focus on compliance with the mandatory components of the leveraged DOE funding and will address them in a manner that is most relevant and meaningful for North Dakota communities, businesses, and workforce. The CBP contains four actionable sections: Community and Labor

Engagement; Investing in Job Quality and a Skilled Workforce; Diversity, Equity, Inclusion, and Accessibility (DEIA); and Justice40 (J40) Initiative. The subtasks discussed in Task 2.0 each have a unique community or stakeholder focus but are all components of the overarching CBP and will be implemented concurrently. This approach will not only maximize efficiency and use of materials and resources but also provide consistent trustworthy messaging to enhance existing community relationships and foster new ones. A project webpage hosted on the EERC website will be developed and will incorporate principles of DEIA and environmental justice while providing project objectives, status, fact sheets, project partners, and contact information.

Key elements of public engagement will be listening sessions and a stakeholder network. Through listening sessions, the project team anticipates learning about stakeholder needs and concerns. Perceived risks expressed in these sessions will be integrated into Subtask 4.4 and will guide future messaging and materials development. The project team will work toward developing a network of stakeholder representatives to guide and advise project activities, build trustworthy relationships, and help engage the public.

Subtask 2.1 – Community and Labor Engagement (CLE) – This subtask will include all activities necessary to execute the Community and Labor Engagement section of the CBP. This subtask will include in-depth social characterization of the project area in the context of the greater region; identifying audiences, including communities with environmental justice concerns, disadvantaged communities, and tribes; developing messaging goals and content; selecting methods for engaging stakeholders (e.g., media campaigns, one-on-one contact, listening sessions, open houses, etc.); strategies for incorporating stakeholder feedback; materials development; developing a timeline for implementation of the plan; and creating a system for tracking engagement outcomes and gauging impact.

Subtask 2.2 – Investing in Job Quality and a Skilled Workforce – This subtask will include all activities necessary to execute the Investing in Job Quality and a Skilled Workforce section of the CBP.

Subtask 2.3 – Diversity, Equity, Inclusion, and Accessibility – This subtask will include all activities necessary to execute the DEIA section of the CBP. The DEIA subtask includes the actions that will be implemented throughout the project to foster a welcoming and inclusive environment; support people from groups traditionally underrepresented in STEM (science, technology, engineering, and math) and/or applicable workforces; advance equity; and encourage the inclusion of individuals from these groups in future phases of the project.

Subtask 2.4 – Justice40 – This subtask will include all activities necessary to execute the J40 section of the CBP. The J40 subtask will consist of two parts. Part 1 will begin with an in-depth energy and environmental justice assessment (EEJA) that will assess the project benefits and impacts. Learnings from the EEJA will be used to inform and develop Part 2, the J40 implementation strategy that will describe actions the project team will take to maximize benefits and minimize negative impacts in areas identified in the EEJA.

Task 3.0 – Regional Technology Transfer and Engagement

Subtask 3.1 – Technology Transfer – Work in Subtask 3.1 will inform and educate stakeholders about CCUS technologies. Nontechnical challenges to CCUS deployment in the region will be identified and assessed. A carbon hub advisory team (CHAT) will be formed to discuss key CCUS topics and guide engagement efforts. Developments from the CHAT will provide industry and regulatory stakeholders with tools to inform decision-making. The outcomes of this subtask will be transferred to stakeholders through meetings, presentations, and webinars. Developed materials will be shared with project sponsors to support its broader program goals. These activities will be planned in coordination with project partners and subject to their approval.

Subtask 3.2 – State and Federal Government Engagement – Subtask 3.2 will engage and inform state and federal government stakeholders about CCUS technologies and project development. Nontechnical challenges to CCUS deployment in the region, addressed in Task 4.0, will be identified and assessed. The

outcomes of this subtask will be transferred to stakeholders through meetings, presentations, and webinars. Developed materials will be shared with project sponsors. These activities will be planned in coordination with project partners and subject to their approval.

Task 4.0 – Technical and Nontechnical Challenges

Work in Task 4.0 will focus on identifying technical and nontechnical challenges for the prospective PHCMH, including conducting a feasibility study, investigating legacy well integrity in the project area, identifying and addressing pore space competition, and conducting a risk assessment.

Subtask 4.1 – Road Map to Prove Feasibility – This subtask will evaluate the PHCMH from the perspective of a prefeasibility study. Criteria for DOE’s CarbonSAFE (Storage Assurance Facility Enterprise) Phases II and III will be used as the standard for comparison in evaluating the feasibility of the PHCMH. The project team will review and identify existing datasets within the defined project area to inform recommendation for additional data acquisition, such as acquiring additional seismic data and the location of a stratigraphic test well, aka the well of knowledge. A report (deliverable) will be developed with recommendations for a commercial project developer to collect all necessary data, including the location of stratigraphic test well and a well coring, testing, and sampling program to ensure compliance with North Dakota CO₂ storage facility permitting requirements. New and existing datasets can be used to inform final project design (i.e., number and location of injection wells and monitoring wells) and incorporated into a geologic model needed for meeting computational simulation requirements.

Subtask 4.2 – Legacy Well Integrity – Efforts in this subtask will be directed toward a legacy wellbore integrity assessment. This assessment will characterize the 400+ existing wellbores from the standpoint of long-term CO₂ storage security. The inventory of wells will be classified in a manner that will provide future hub developers with a foundational knowledge of wellbore mitigation challenges that may lie ahead (deliverable).

Subtask 4.3 – Pore Space Competition – As pore space resource demand increases, there will be increasing chances for a CO₂ storage developer to encounter competition for the subsurface storage resource. A paper (deliverable) will be developed to discuss the various types of storage opportunities (e.g., short-term vs. long-term), by-product to be stored (e.g., CO₂, H₂, saltwater, methane), formation types (e.g., nonproductive oil-bearing, geothermal resource), and associated laws and regulations in the broader area surrounding the PHCMH.

Subtask 4.4 – Risk Assessment – Activities within this subtask will be directed to conducting a risk assessment in conjunction with the engagement activities in Tasks 2.0 and 3.0. The goal will be to catalog risks identified by the area stakeholders. Risk identification will be conducted to identify both technical and nontechnical risks that may prevent or hinder potential candidate storage reservoirs within the hub area from serving as commercial CO₂ storage sites. Once the risk assessment has been completed, a risk treatment strategy will be formulated. Risk treatment includes several different strategies for negative risks, including avoidance, transfer, mitigation, and acceptance, and for positive risks, including exploitation, sharing, enhancing, and acceptance. Communication is necessary during every step of the risk assessment process to assure stakeholders that the identified risks are being addressed formally and suggested mitigation strategies are vetted during public engagement sessions. A report (deliverable) describing the identified risks and mitigation strategies will be submitted.

Task 5.0 – Regional Infrastructure Development

Work in Task 5.0 will evaluate regional infrastructure development by assessing potential transportation and infrastructure needs in the project area as well as identifying regional scale-up challenges and developing site readiness factors for the hub.

Subtask 5.1 – CO₂ Pipeline Rights-of-Way (ROWs) – This subtask will acquire available datasets that relate to land surface use and ownership within the broader study area to identify pertinent geopolitical characterization, environmentally sensitive areas, and various existing ROWs (including pipelines). This

information will be used to identify conflicts or opportunities for project development within the study area and summarized in a report (deliverable).

Subtask 5.2 – Site-Readiness Factors – The project team will create a prototype template (deliverable) for documenting site-readiness factors for commercial development of a carbon storage facility or hub. Site-readiness factors will be guided by the development of a commercial deployment matrix that will encompass CO₂ transport, utilization, and storage.

Anticipated Results: The proposed project will support North Dakota’s vision to develop and deploy large-scale commercial CO₂ storage projects that reduce environmental impacts and increase the sustainability of energy production. The proposed project will provide the information needed for the project team to confidently invest in commercial deployment of clean H₂ energy that can diversify North Dakota’s economy, leverage existing energy resources, and create sustainable jobs.

Facilities: The EERC research complex comprises 254,000 ft² of laboratories, fabrication facilities, technology demonstration facilities, and offices. The EERC has established working relationships with over 1300 clients, including federal and state agencies, universities, energy exploration and production companies, utilities, research and development firms, equipment vendors, architecture and engineering firms, chemical companies, and other organizations in all 50 states and 53 countries.

Resources: As a result of a long history of exploration and production in North Dakota, extensive oil and gas datasets are available. Most notably, the datasets are publicly available for free from NDIC with data from over 30,000 wells. These datasets consist of both spatial and tabular databases. Other available data (for free and/or purchase) include seismic surveys (2D and 3D), geophysical well logs, core data, water quality data, groundwater well locations, and water salinity.

The North Dakota Geological Survey’s Wilson M. Laird Core and Sample Library is located less than 1 mile from the EERC. The climate-controlled facility currently houses over 375,000 feet of core and 30,000 boxes of drill cuttings obtained from oil and gas wells, which represents about 75% of the cores

cut in the North Dakota portion of the Williston Basin and about 95% of the samples collected. Use of the facility is free of charge.

No equipment is expected to be purchased for this project.

Techniques To Be Used, Their Availability and Capability: The proposed team has committed to the project and has ensured the availability of key personnel for the time frame of this project. The NDIC Oil and Gas Division provides online access to all geophysical logs related to deep well drilling in North Dakota. Any and all relevant publicly available data will be used for the project.

Environmental and Economic Impacts while Project Is Underway: Funding through NDIC will help offset initial development costs of CO₂ storage projects, and incentives such as 45Q will provide tax credits that make CO₂ capture, transportation, and storage economically viable. The project team believes that as more CCS projects are developed, the costs of the technologies employed will continue to fall and projects such as this will become more economically and socially attractive.

Ultimate Technological and Economic Impacts: The proposed project will support North Dakota's vision to develop and deploy large-scale commercial CO₂ storage projects that reduce environmental impacts and increase the sustainability of energy production. The proposed project will provide the information needed for the project team to confidently invest in commercial deployment of clean H₂ energy that can diversify North Dakota's economy, leverage existing energy resources, and create sustainable jobs.

Why the Project Is Needed: Although CCUS deployment has momentum in North Dakota, a variety of technical, policy, and stakeholder engagement aspects still need to be addressed. In the technical realm, there are questions about how operators can optimize CO₂ storage and account for potential pressure impacts from neighboring projects. From a policy standpoint, outstanding questions focus on how mineral rights and pore space rights can be reconciled in areas where both CO₂ storage and oil and gas production are technically feasible. Other questions about federal policies and regulations will come into play for CCUS development on federal lands. In the area of public perception, the concept of CCUS

deployment in North Dakota has recently been getting more attention in the media, highlighting knowledge gaps and misconceptions regarding the safety and effectiveness of CCUS, the role of government in its development and regulation, and the overall benefits of CCUS for all North Dakota citizens. The questions and challenges being addressed by this project will be valuable to all stakeholders as North Dakota continues to pursue carbon reduction strategies for our energy and agricultural sectors and the diversification of our economy that will follow.

STANDARDS OF SUCCESS: Ultimately, this project will be considered successful if the project activities can 1) promote public engagement and support in North Dakota, 2) promote regional technology transfer, 3) address key technical and nontechnical challenges by advancing critical knowledge and capabilities, and 4) evaluate regional infrastructure challenges and needs. Accomplishment of this project and subsequent investments enables the commercial deployment of clean H₂ energy technology in North Dakota, resulting in economic and environmental benefits consistent with REP goals.

BACKGROUND/QUALIFICATIONS: The EERC will lead the proposed project. The principal investigator (PI) and lead for Task 1.0 is Mr. Kevin Connors, Assistant Director for Regulatory Compliance and Energy Policy at the EERC. Mr. Connors will handle project management, planning, and reporting activities. He will ensure successful completion of the project on schedule and budget, coordinate and direct consultant activities, and ensure transfer of data and products to project sponsors. Ms. Charlene Crocker, EERC Senior Research Scientist and Outreach Team Lead, will lead Task 2.0 and be responsible for updating and implementing the CBP along with coordinating public engagement and support. Ms. Katherine Anagnost, EERC Senior Regulatory and Permitting Specialist, will lead Task 3.0 and be responsible for overall regional technology transfer, managing the advisory team (CHAT), and engagement. Mr. Wesley Peck, EERC Assistant Director for Subsurface Strategies, will lead Task 4.0 and be responsible for leading the technical and nontechnical challenges investigation. Mr. Kyle Glazewski, EERC Principal Analyst and Data/GIS Team Lead, will serve as Task 5.0 lead and direct the regional

infrastructure evaluation. Dr. Sheila Hanson, Associate Professor of Entrepreneurship & Management at the University of North Dakota (UND) Nistler College of Business & Public Administration, is a psychologist who will conduct social science research under Task 2.0. MPC and TCE will be providing cost share. Representatives of MPC, TCE, and REP will serve on the CHAT to guide CBP implementation and engagement activities. In addition, MPC and TCE will lead governmental, tribal, and public engagement efforts; they will also have final approval on all aspects of stakeholder engagement activities.

MANAGEMENT: The EERC will oversee all tasks, schedule regular internal and external meetings with project participants, and ensure that the project is conducted using acceptable scientific methodologies and practices in accordance with the project plan (budget, schedule, deliverables, and milestones) and is meeting quality objectives. The EERC will keep all partners informed of project progress, coordinate activities as necessary for the execution of a successful project, and will be responsible for timely submission of all project deliverables and transfer of data and products to the project team.

TIMETABLE: This project is proposed to be performed over a 24-month period, with an anticipated start date of November 1, 2023. Quarterly progress reports will be submitted within 30 days after the end of each calendar quarter. Figure 1 depicts the proposed schedule.

			Year 1				Year 2			
			2023	2024			2025			
			Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
1.0 – Project Management and Planning	11/1/23	10/31/25								
2.0 – Community Benefits Plan	11/1/23	10/31/25								
2.1 – Community and Labor Engagement	11/1/23	10/31/25								
2.2 – Investing in Job Quality and a Skilled Workforce	11/1/23	10/31/25								
2.3 – Diversity, Equity, Inclusion, and Accessibility	11/1/23	10/31/25								
2.4 – Justice40	11/1/23	10/31/25								
3.0 – Regional Technology Transfer and Engagement	11/1/23	8/31/25								
3.1 – Technology Transfer	11/1/23	8/31/25								
3.2 – State and Federal Government Engagement	11/1/23	8/31/25								
4.0 – Technical and Nontechnical Challenges	11/1/23	8/31/25								
4.1 – Roadmap to Prove Feasibility	11/1/23	5/31/25								
4.2 – Legacy Well Integrity	11/1/23	5/31/24								
4.3 – Pore Space Competition	11/1/23	10/31/24								
4.4 – Risk Assessment	11/1/23	8/31/25								
5.0 – Regional Infrastructure Evaluation	11/1/23	8/31/25								
5.1 – CO ₂ Pipeline Right-of-Way	11/1/23	8/31/24								
5.2 – Site Readiness Factors	11/1/23	3/31/25								

Figure 1. Proposed project schedule.

BUDGET: The total estimated cost for the proposed work is \$3,225,000, as presented in Table 1. The EERC requests \$100,000 from REP to be matched with \$2,500,000 from DOE’s FECM and up to \$625,000 cash cost share from MPC and TCE. A letter of support is provided in Appendix A. Budget notes can be found in Appendix C.

Table 1. Budget Breakdown

Project Associated Expense	NDIC Share (Cash)	DOE Share (Cash)	Industry Share (Cash)	Total Project
Labor	\$66,200	\$1,366,309	\$337,167	\$1,769,676
Travel	\$0	\$174,346	\$10,000	\$184,346
Supplies	\$0	\$5,610	\$0	\$5,610
Subcontractor - TBD Graphic Design	\$0	\$30,000	\$0	\$30,000
Subcontractor - TBD Workshop Partner	\$0	\$8,000	\$0	\$8,000
Communications	\$0	\$6,456	\$5,000	\$11,456
Printing & Duplicating	\$25	\$2,131	\$1,500	\$3,656
Food	\$0	\$1,475	\$0	\$1,475
Rent & Leases - Venue	\$0	\$2,800	\$2,600	\$5,400
Honorarium	\$0	\$4,800	\$0	\$4,800
Laboratory Fees & Services				
Document Production Services	\$0	\$54,812	\$34,358	\$89,170
Engineering Services Fee	\$0	\$2,600	\$0	\$2,600
Geoscience Services Fee	\$0	\$2,940	\$0	\$2,940
Total Direct Costs	\$66,225	\$1,662,279	\$390,625	\$2,119,129
Facilities & Administration	\$33,775	\$837,721	\$234,375	\$1,105,871
Total Project Costs	\$100,000	\$2,500,000	\$625,000	\$3,225,000

TAX LIABILITY: The EERC is a business unit within UND, which is a state-controlled institution of higher education and is not a taxable entity; therefore, the EERC has no tax liability.

CONFIDENTIAL INFORMATION: No confidential information is included in this proposal.

PATENTS/RIGHTS TO TECHNICAL DATA: It is not anticipated that any patents will be generated during this project. The rights to technical data generated will be held jointly by the EERC and project sponsors.

STATE PROGRAMS AND INCENTIVES: A listing of EERC projects funded by NDIC in the last 5 years can be found in Appendix D.

APPENDIX A
LETTERS OF SUPPORT

February 10, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Subject: Cost Share Commitment for EERC Proposal Entitled “Liberty Carbon Management Hub”; U.S. Department of Energy’s Funding Opportunity Announcement No. DE-FOA-0002799

Dear Mr. Connors:

MPLX Operations LLC (together with its affiliates, “MPLX”) and TC Energy Development Holdings Inc. (“TCEDH”) are writing to express our cost share commitment and support for the efforts of the Energy & Environmental Research Center (“EERC”) to secure funding through the U.S. Department of Energy’s Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity DE-FOA-0002799 (“Funding Opportunity”).

The EERC’s proposed project, the Liberty Carbon Management Hub, will investigate the potential for a carbon management hub near Dickinson, North Dakota. MPLX, TCEDH, and the EERC are in the process of evaluating the development of the Liberty Hydrogen Hub (“LHH”) in North Dakota as a related complementary project. The separately-funded LHH will advance critical development scope to progress consummation of a large-scale project that would be a major infrastructure investment in clean hydrogen production, storage and transportation along with carbon capture and sequestration to result in low-carbon energy solutions. With MPLX, TCEDH, and EERC partnered on the LHH, the investigation of the Liberty Carbon Management Hub and the related public engagement will further the development of carbon capture and storage for the LHH.

We plan to explore strategic partnerships with various entities who currently serve the region in industrial and energy solutions through these unique hubs. The Liberty Carbon Management Hub, along with the LHH, will allow local industries to advance their sustainability goals in reducing CO₂ emissions while continuing to meet the nation’s energy demands. With financial incentives such as grants and the 45Q tax credit, we strive to demonstrate that a strong business case exists to undertake a larger exciting opportunity with further development and deployment as outlined in EERC’s proposal responsive to the Funding Opportunity.

MPLX is a diversified, large-cap master limited partnership that owns and operates midstream energy infrastructure and logistics assets and provides fuels distribution services. MPLX’s assets include a network of crude oil and refined product pipelines; an inland marine business; light-product terminals; storage caverns; refinery tanks, docks, loading racks, and associated piping; and crude and light-product marine terminals. MPLX also owns crude oil and natural gas gathering systems and pipelines as well as natural gas and natural gas liquids (NGL) processing and fractionation facilities in key U.S. supply basins.

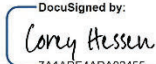
TCEDH is an indirect wholly-owned subsidiary of TC Energy Corporation, a premier North American energy infrastructure company with a network of wholly-owned natural gas pipelines that extends more

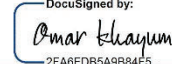
than 57,900 miles and moves approximately 25% of natural gas in North America and is one of the continent's largest providers of gas storage with approximately 653 billion cubic feet of storage capacity. A growing independent power producer, TC Energy Corporation has investments in over 4,200 MW of power generation in North America, including Bruce Power (one of the largest nuclear facilities in North America). TC Energy Corporation also moves approximately 20% of Alberta crude oil to U.S. markets through one of North America's largest oil delivery systems with a 3,000-mile pipeline network.



As outlined in the Funding Opportunity, and in support of the EERC's proposal, MPLX and TCEDH commit to provide combined cash cost share of at least twenty percent (20%) of the allowable costs associated with EERC's proposal related to the Liberty Carbon Management Hub, totaling \$625,000.

We believe the investigation of carbon capture and storage for the complimentary hydrogen production hub meets the DOE's objective to safely and equitably accelerate the deployment of CCUS. We look forward to working with DOE, EERC, and other project partners to further the development of this exciting work.


TC Energy Development Holdings Inc.

DocuSigned by:

7A1A8E4AD402466...
By: Corey N. Hessen
Title: President

DocuSigned by:

2FAG6FDB5A9B84F5...
By: Omar Khayum
Title: Vice President

MPLX Operations LLC


By: David R. Heppner
Title: Senior Vice President


Approved as to Form



NATIONAL ENERGY TECHNOLOGY LABORATORY
Albany, OR • Morgantown, WV • Pittsburgh, PA



June 26, 2023

SENT VIA ELECTRONIC MAIL

Sheryl Eicholtz-Landis
University of North Dakota
15 North 23rd Street, Stop 9018
Grand Forks, North Dakota 58202-9018
slandis@undeerc.org

SUBJECT: Selection of Application for Negotiation Under Funding Opportunity Announcement Number DE-FOA-0002799, Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs

Dear Sheryl Eicholtz-Landis:

We are pleased to provide this update on your application. The Office of Fossil Energy and Carbon Management within the Department of Energy (DOE) has completed its evaluation of your application submitted in response to the subject Funding Opportunity Announcement (FOA). The application below has been recommended by the Office of Fossil Energy and Carbon Management for negotiation of a financial award (*Note: This notification does not guarantee Federal Government funding, as funding will only be obligated upon completion of successful negotiations.*)

Application: Liberty Carbon Management Hub, Kevin Conners, GRANT13801150

DOE has embargoed any public announcement of your selection until further notice. You must refrain from making any public announcements – through press releases, social media, or any other public communication platform – until DOE has made the selection announcement. At the time of the announcement, we will provide you with a link to the announcement and inform you that the embargo has officially been lifted via subsequent email. You will then be free (and encouraged) to announce your selection for negotiation leading to an award publicly.

Receipt of this letter does not authorize you to commence with performance of the project. DOE makes no commitment to issue an award and assumes no financial obligation with the issuance of this letter. Applicants do not receive an award until award negotiations are complete and the Contracting Officer executes the funding agreement. Only an award document signed by the Contracting Officer obligates DOE to support a project.

The award negotiation process may take up to **180** days. You must be responsive during award negotiations (*i.e., provide requested documentation*) and meet the stated negotiation

deadlines. Failure to submit the requested information and forms by the stated due date, or any failure to conduct award negotiations in a timely and responsive manner, may cause DOE to cancel award negotiations and rescind this selection. DOE reserves the right to terminate award negotiations at any time for any reason.

Please complete the following items and submit to DOE no later than July 12th, 2023:

- Pre-Award Information Sheet (attached);
- Copy of indirect rate agreement(s) for you and any sub-recipient(s), if applicable;
- Updated environmental questionnaire(s), as applicable (available at: [Environmental Questionnaire](#)).

If your organization, including any subrecipient or contractor, anticipates involving foreign nationals (FNs) in the performance of the award, your organization is required to provide a list of all FNs planned to participate on the award along with basic information about each. You must download and complete the “Foreign National Participation Document” located at <https://www.netl.doe.gov/business/business-forms/financial-assistance> under Post Selection Forms/Information and submit the completed document to basicinfo@netl.doe.gov with a courtesy copy to the assigned Project Manager (PM) and Contract Specialist.

Upon receipt of the completed “Foreign National Participation Document,” we will create a secured file sharing drop box folder(s) for **FNs in Principal Investigator (PI)/Co-PI roles and for FNs from countries identified on the U.S. Department of State’s list of State Sponsors of Terrorism located at <https://www.state.gov/state-sponsors-of-terrorism/> for submission of additional information.** The additional information will NOT be required for any of the other FNs planned to participate on the award, and therefore, a folder(s) will not be created.

As part of the requirement to submit additional information for PIs/Co-PIs and for FNs from countries identified as State Sponsors of Terrorism, your organization must ensure completion of the “Foreign National Participation **Data** Document” also located at <https://www.netl.doe.gov/business/business-forms/financial-assistance>. The document and all required attachments must be uploaded to the secured file sharing drop box folder(s) provided by DOE’s FN Request Coordinator. The assigned PM will contact the appropriate FN Data Entry POC in the event there are issues with the submission.

Please note that all FNs identified on the “Foreign National Participation Document,” **except for FNs from countries identified on the U.S. Department of State’s list of State Sponsors of Terrorism, are authorized to commence work as of the award effective date unless determined otherwise by DOE.** FNs from countries identified on the U.S. Department of State’s list of State Sponsors of Terrorism are **NOT** permitted to participate on the award until written authorization is received from the Contracting Officer.

The Contracting Officer will notify your organization of DOE’s decision regarding participation of FNs from countries identified on the U.S. Department of State’s list of

State Sponsors of Terrorism. The DOE reserves the right to request additional information or deny participation of any FN at any time.

Please provide the requested documents to the attention of Ursula Drake, who is the Contract Specialist from the Finance and Acquisition Center handling the administrative portion of your application. Ms. Ursula Drake can be reached at ursula.drake@netl.doe.gov. Johnathan Moore is the DOE Project Manager from the Project Management Division handling the technical portion of your application and can be reached at 304-285-0297 or johnathan.moore@netl.doe.gov.

Sincerely,

**ANGELA
HARSHMAN**

Digitally signed by
ANGELA HARSHMAN
Date: 2023.06.26
15:03:57 -04'00'

Angela Harshman
Contracting Officer
Finance and Acquisition Center

cc: FOA File
Basicinfo@netl.doe.gov
kconnors@undeerc.org
johnathan.moore@netl.doe.gov
ursula.drake@netl.doe.gov



MPLX LP

February 10, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Corey N. Hessen
President
TC Energy Development Holdings Inc.
700 Louisiana Street
Suite 1300
Houston, TX 77002

RE: Letter Agreement – Conditions for EERC’s Proposal

All:

MPLX Operations LLC (“MPLX”) is pleased to offer this letter agreement to the Energy & Environmental Research Center (“EERC”) and TC Energy Development Holdings Inc. (“TCEDH”) in furtherance of the EERC’s grant application titled “*Liberty Carbon Management Hub*” (the “Proposal”) in response to the U.S. Department of Energy (“DOE”) Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity DE-FOA-0002799.

The Proposal aligns with the interests of MPLX and TCEDH, including the EERC’s stated intent to advance critical development toward a large-scale project in North Dakota involving clean hydrogen production, storage and transportation coupled with carbon capture and sequestration (“Scope of Work”). MPLX and TCEDH are providing a cost share commitment letter associated with the Proposal, and this letter includes a commitment of twenty percent of allowable costs associated with the Proposal up to \$625,000. Such commitment is conditioned on the following items:

- (i) The EERC’s final Proposal project plan being acceptable to MPLX and TCEDH;
- (ii) DOE’s award of the Proposal; *and*
- (iii) The EERC’s grant to MPLX and TCEDH and its affiliates of all licenses, authorizations, and similar rights, including rights to any intellectual property, related to the Scope of Work under the Proposal as those granted to the DOE under any cooperative agreement contemplated by the FOA or any third party.

MPLX looks forward to joining TCEDH and the EERC in this effort.

Sincerely,

David R. Heppner
Senior Vice President

Approved as to Form

[acknowledgement page follows]



MPLX LP

Acknowledged and agreed to as of the date first written above:

TC Energy Development Holdings Inc.

DocuSigned by:
Corey Hessen

By: Corey N. Hessen
Title: President

DocuSigned by:
Omar Khayum

By: Omar Khayum
Title: Vice President

DS
TH

DS
JG

Energy & Environmental Research Center

By: Kevin C. Connors
Title: Assistant Director for Regulatory Compliance and Energy Policy



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

February 6, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Subject: Support for EERC Proposal Entitled "Liberty Dakota Carbon Management Hub"

Dear Mr. Connors:

Please accept this support letter for the Energy & Environmental Research Center's (EERC's) proposed project to investigate the geologic storage of CO₂ in western North Dakota in response to U.S. Department of Energy's Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs Funding Opportunity Announcement DE-FOA-0002799.

The mission of the North Dakota Industrial Commission's Renewable Energy Program (REP) is to promote the growth of North Dakota's renewable energy industries through research, development, marketing, and education. The development and deployment of CCUS in pursuit of achieving zero or negative CO₂ emissions for a renewable diesel facility aligns well with the REP's mission and goals.

This project would be eligible for a cash cost share of up to \$100,000 from the REP. Availability of this cost share is contingent upon submission of a proposal to the Renewable Energy Council, approval by the Council and the Industrial Commission, and the execution of a mutually negotiated agreement of acceptable terms and conditions with all project sponsors. REP funds will comprise of nonfederal dollars and would not be used as federal match on any other project.

We hope that DOE gives careful consideration to this project, as there is significant need for projects that promote the continued development and support of renewable fuels. Again, we express our interest and support of the proposed project and look forward to working with the EERC, DOE, and the entire team.

Sincerely,

A handwritten signature in black ink, appearing to read "Reice Haase".

Reice Haase

Deputy Director, North Dakota Industrial Commission

JOHN HOEVEN
NORTH DAKOTA

338 RUSSELL SENATE OFFICE BUILDING
TELEPHONE: (202) 224-2551
FAX: (202) 224-7999

hoeven.senate.gov

COMMITTEES:
AGRICULTURE
APPROPRIATIONS
ENERGY AND NATURAL RESOURCES
INDIAN AFFAIRS

United States Senate

WASHINGTON, DC 20510

February 6, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Subject: Support for EERC Proposal Entitled "Liberty Carbon Management Hub"

Dear Mr. Connors:

I am writing to express my support for the application submitted by the Energy & Environmental Research Center (EERC) to the U.S. Department of Energy's Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity (DE-FOA-0002799).

After nearly 15 years, we have successfully placed North Dakota at the forefront of energy development. Our state not only serves as an energy powerhouse for our nation, but we are also leading the way in innovative new technologies, like carbon capture, utilization, and storage (CCUS), which will empower the United States to continue utilizing all of our abundant energy resources with better environmental stewardship. In particular, we:

- Developed and passed through the North Dakota legislature, a regulatory framework for long-term carbon sequestration in the state.
- Established trust funds for state oversight and for long-term liability.
- Secured approval from the Environmental Protection Agency to give North Dakota regulatory primacy over Class VI wells.

These are among the critical elements that set our state apart in making geologic sequestration a reality, and the EERC has been a central player throughout these efforts. Now, under this proposal, the EERC will accelerate the commercial deployment of CCUS in North Dakota as well as continue to inform and educate through public outreach and support.

Accordingly, I hope this application receives favorable consideration. Please keep me informed of the review process, and feel free to contact my office with any updates or inquiries you may have.

Sincerely,



John Hoeven
U.S. Senator

KEVIN CRAMER
NORTH DAKOTA

SUITE 330
HART BUILDING
WASHINGTON, DC 20510
202-224-2043

United States Senate

COMMITTEES
ARMED SERVICES
BANKING, HOUSING, AND URBAN AFFAIRS
THE BUDGET
ENVIRONMENT AND PUBLIC WORKS
VETERANS' AFFAIRS

February 6, 2023

Mr. John A. Harju
Vice President for Strategic Partnerships
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Dear John:

Subject: Support for EERC Proposal Entitled "Liberty Carbon Management Hub"

I am writing to express my support for the Energy & Environmental Research Center's (EERC's) efforts to secure funding through the U.S. Department of Energy's Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity DE-FOA-0002799.

As you know, I have been relentless in my support for our state's all-the-above energy industry and for the world-class energy research across multiple disciplines undertaken by the EERC. I have introduced and worked on multiple pieces of legislation to encourage research, development, and implementation of CCUS technologies.

North Dakota is among the nation's premier states in energy production and environmental conservation. I am a proponent of development and production of all of the state's energy resources—conventional and renewable—and believe North Dakota's energy research and policies should serve as a model for the rest of the country. The EERC's proposed efforts will accelerate the commercial deployment of CCUS in North Dakota, which will lead to an expansion of the opportunities for our nation's energy industries, and further inform and educate with public outreach and support.

I am a strong advocate for the work being done at the EERC and remain supportive and committed to the opportunities being pursued, including this geologic carbon storage project, and the promise they provide for the state of North Dakota and the nation.

Sincerely,



Kevin Cramer
United States Senator

KELLY ARMSTRONG
AT-LARGE, NORTH DAKOTA

**ENERGY AND COMMERCE
COMMITTEE**

CONSUMER PROTECTION AND COMMERCE
ENERGY

Congress of the United States
House of Representatives
Washington, DC 20515

WASHINGTON OFFICE:
1740 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-2611

DISTRICT OFFICES:
3217 FIECHTNER DR., SUITE B
FARGO, ND 58103
PHONE: (701) 353-6665

U.S. FEDERAL BUILDING
220 E ROSSER AVE., ROOM 228
BISMARCK, ND 58501
(701) 354-6700

ARMSTRONG.HOUSE.GOV

February 7, 2023

Mr. John A. Harju
Vice President for Strategic Partnerships
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Dear Mr. Harju:

Subject: Support for EERC Proposal Entitled "Liberty Carbon Management Hub"

I write to express my support for the Energy & Environmental Research Center's (EERC's) efforts to secure funding through the U.S. Department of Energy's Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity DE-FOA-0002799.

In my role as North Dakota's lone member of the U.S. House of Representatives, I have the privilege to showcase our state's vibrant energy resources and those enterprises who lead their environmentally responsible production and development. I am particularly proud of my frequent opportunities to highlight the ongoing leadership of the EERC in formulating an economically viable low-carbon future for our nation and world.

This project will examine the potential for a carbon storage hub in western North Dakota along with the important work of public outreach and support. I am confident that this will further propel North Dakota's leadership in the pursuit of long-term energy solutions.

I strongly support the EERC's efforts, which will lead to exciting opportunities for the state of North Dakota and the nation in resolving near- and long-term energy challenges.

Sincerely,



Kelly Armstrong
Congressman



Governor Doug Burgum



February 3, 2023

Mr. John A. Harju
Vice President for Strategic Partnerships
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Dear John:

Subject: Support for EERC Proposal Titled "Liberty Carbon Management Hub"

We strongly support the Energy & Environmental Research Center's (EERC's) efforts to secure funding through the U.S. Department of Energy's Regional Initiative to Accelerate Carbon Capture, Utilization, and Storage (CCUS) Deployment: Technical Assistance for Large-Scale Storage Facilities and Regional Carbon Management Hubs funding opportunity DE-FOA-0002799.

North Dakota has a long history of responsible energy development and environmental leadership. We commend the EERC for its long-term commitment to making geologic storage and utilization of carbon dioxide a viable option in our quest for low-carbon solutions.

North Dakota's energy industries are global leaders in energy development and production. They continue to implement long-term strategies that provide meaningful and abundant contributions to our nation's energy needs. The project proposed by the EERC will accelerate the safe and socially equitable deployment of CCUS within our state by establishing an experienced technical team and providing technical and community outreach and information sharing.

We strongly support the efforts of the EERC and look forward to the exciting opportunities this work will bring to the state of North Dakota and our country in resolving our energy challenges.

Regards,

Doug Burgum
Governor



NORTH DAKOTA
PETROLEUM
COUNCIL

100 West Broadway, Ste. 200 | P.O. Box 1395 | Bismarck, ND 58501-1395
701.223.6380 | ndpc@ndoil.org | www.NDOil.org

February 1, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Dear Mr. Connors:

Subject: Support for EERC Proposal Entitled "Liberty Carbon Management Hub"

The North Dakota Petroleum Council (NDPC) is pleased to submit this letter of support for the team being assembled by the Energy & Environmental Research Center (EERC) to accelerate the commercial deployment of CCUS in western North Dakota in response U.S. Department of Energy's Funding Opportunity Announcement No. DE-FOA-0002799.

NDPC's mission is to promote and enhance the discovery, development, production, transportation, refining, conservation, and marketing of oil and gas in North Dakota, South Dakota, and the Rocky Mountain region; to promote opportunities for open discussion, lawful interchange of information, and education concerning the petroleum industry; to monitor and influence legislative and regulatory activities on the state and national level; and to accumulate and disseminate information concerning the petroleum industry to foster the best interests of the public and industry.

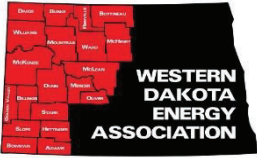
NDPC provides support to the more than 500 members it represents who are involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, mineral leasing, consulting, legal work, and oilfield service activities in North Dakota, South Dakota, and the Rocky Mountain region. I would be pleased to provide outreach advisement for this proposed project.

We strongly encourage consideration of the EERC proposal and look forward to the results of this important project.

Sincerely,

A handwritten signature in blue ink that reads "Ron Ness".

Ron Ness
President



WESTERN DAKOTA ENERGY ASSOCIATION

EXECUTIVE COMMITTEE

Trudy Ruland
President
Mountrail County

Supt. Leslie Bieber
Vice President
Alexander PSD

Zach Gaaskjolen
City of Stanley

Keith Harris
Dickinson PSD

Supt. Tim Holte
Stanley PSD

Shannon Holter
City of Bowbells

Lyn James
City of Bowman

Nick Klemisch
Garrison PSD
Coal Conversion
Counties

David Montgomery
Williams County

Craig Pelton
Dunn County

John Phillips
Coal Conversion
Counties

February 1, 2023

Mr. Kevin C. Connors
Assistant Director for Regulatory Compliance and Energy Policy
Energy & Environmental Research Center
15 North 23rd Street, Stop 9018
Grand Forks, ND 58202-9018

Dear Mr. Connors:

Subject: Support for EERC Proposal Entitled "Liberty Carbon Management Hub"

The Western Dakota Energy Association is a membership organization comprised of the cities, counties, and school districts in the energy-producing region of western North Dakota. WDEA is pleased to provide the EERC with this letter of support for the proposed studies to investigate a commercial-scale geologic carbon storage hub in western North Dakota in response to the U.S. Department of Energy's Funding Opportunity DE-FOA-0002799.

WDEA's advocacy goals include ensuring a solid economic future for our communities, strong infrastructure which promotes safety for our citizens, and sensible management of our natural resources to ensure their viability for generations to come.

North Dakota is at the forefront of energy development and production, investigating long-term strategies that incorporate all the state's energy resources – traditional and emerging – to meet the nation's growing energy demand in an environmentally responsible manner. The project proposed by the EERC will investigate the potential for a carbon management hub in North Dakota, leading to expanded opportunities for the state's energy industries, its communities, and its citizens.

We look forward to working with the EERC team on this important project.

Sincerely,

Geoff Simon
Executive Director

Western Dakota Energy Association
1661 Capitol Way, Bismarck ND 58501
www.ndenergy.org • 701-527-1832

APPENDIX B

RESUMES OF KEY PERSONNEL

KEVIN C. CONNORS

Assistant Director for Regulatory Compliance and Energy Policy
701.777.5236 (phone), 701.777.5181 (fax), kconnors@undeerc.org

Education and Training

B.S., Geology, University of Montana, 2009.

Research and Professional Experience

November 2021–Present: Assistant Director for Regulatory Compliance and Energy Policy, Energy & Environmental Research Center (EERC), University of North Dakota (UND), Grand Forks, ND. Works with a multidisciplinary team of scientists, engineers, and business professionals to integrate legal and regulatory policy, permitting, economics, and tax perspectives with applied research related to incremental oil recovery, unconventional oil recovery, and CO₂ capture and geologic storage. He also manages the Plains CO₂ Reduction (PCOR) Partnership focused on commercial deployment of carbon capture, utilization, and storage (CCUS).

July 2019–October 2021: Principal Policy & Regulatory Strategist, EERC, UND. Worked with a multidisciplinary team of scientists, engineers, and business professionals to integrate legal and regulatory policy, economics, and tax perspectives with applied research related to incremental oil recovery, unconventional oil recovery, and CO₂ capture and geologic storage.

November 2018–June 2019: Principal Consultant Drilling and Well Operations, Equinor Energy, Austin, TX. Worked as a regulatory advisor for Equinor's Williston Basin Bakken asset securing federal and state permits to drill, advising Equinor stakeholders on regulatory issues, and maintaining compliance in a multi-jurisdictional regulatory environment. Worked on special projects with Equinor's research and technology teams as the lead regulatory advisor in developing solutions to gas flaring and CO₂ emissions in the Bakken.

October 2010–October 2018: North Dakota Industrial Commission Oil and Gas Division, Bismarck, ND. October 2015–October 2018: Pipeline Program Supervisor. This position was created by the North Dakota Legislature to develop North Dakota's first Underground Gathering Pipeline Program to improve pipeline integrity. The development of the pipeline program included administrative rule making, hiring and managing office and field staff, developing a data management system (database), and meeting with industry leaders and academic researchers. Mr. Connors created guidance documents for program staff, regulatory inspectors, and the regulated community; testified before the North Dakota Legislature; and presented at public events throughout western North Dakota.

July 2011–October 2018: CCS Supervisor. This position was created by the North Dakota Legislature to provide a timely response to the U.S. Environmental Protection Agency (EPA) rules relating to the geologic sequestration of CO₂ (Class VI). Mr. Connors successfully led North Dakota's efforts to obtain Class VI primacy for the state of North Dakota. He gained expertise in the EPA Underground Injection Control (UIC) Program and North Dakota's geologic storage of CO₂ statutes and authored and adopted North Dakota's CO₂ storage rules through the administrative rule-making process. In this position, he participated in the North Dakota Carbon Dioxide Storage Workgroup, testified before the North Dakota Administrative Rules Committee, authored publications, and presented at technical conferences on carbon capture and storage regulatory frameworks. He also has expertise in North Dakota's pore space amalgamation process for CO₂ storage and gas storage. In 2018, he developed guidelines for gas storage in North Dakota. The guidance document was intended to provide a pathway forward for permitting and storing Bakken produced gas to mitigate flaring.

October 2013–October 2015: UIC Supervisor. Administered the North Dakota Class II UIC Program. As UIC Supervisor, he issued over 100 UIC permits, revised and updated program technical guidelines, evaluated regulatory filings, performed technical evaluations of UIC permit applications, and processed well completion reports, workover reports, and various other regulatory filings. He prepared and

submitted quarterly reports to EPA as part of the UIC program primacy agreement between North Dakota and EPA. Mr. Connors created a regulatory comparison table using North Dakota Statutes and regulations in comparison to the Bureau of Land Management (BLM) proposed rules on hydraulic fracturing. The regulatory comparison was key evidence in the state of North Dakota's lawsuit against the BLM.

October 2010–July 2011: Petroleum Engineer. Conducted enforcement and compliance inspections in the field during a time of increasing oil and gas activity.

January–September 2010: Wellsite Geologist, Weatherford. Provided geological services for the drilling and completion of horizontal wells in the Bakken and Three Forks Formations.

Relevant Publications

Warmack, M.P., Azzolina, N.A., Nakles, D.V., Peck, W.D., Connors, K.C., Lagorin, W., Lagorin, T., Blumenthal, T., Hanslik, J., and Shendye, R., 2022, Pipeline cost and CO₂ transport considerations based on three hypothetical pipelines in the PCOR Partnership Initiative region: White paper for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FE0031838 and North Dakota Industrial Commission Contract Nos. FY20-XCI-226 and G-050-96, Grand Forks, North Dakota, Energy & Environmental Research Center, February.

Burton-Kelly, M.E., Azzolina, N.A., Connors, K.C., Peck, W.D., Nakles, D.V., and Jiang, T., 2022, Risk-based area of review estimation in overpressured reservoirs to support injection well storage facility permit requirements for CO₂ storage projects: Paper presented at the 16th International Conference on Greenhouse Gas Control Technologies (GHGT-16), Lyon, France, October 23–27, 2022. DOI: /10.2139/ssrn.4274259.

Connors, K.C., Peck, W.D., Sorensen, J.A., Hamling, J.A., and Gorecki, C.D., 2022, PCOR Partnership—breaking down the barriers in CCUS: Paper presented at the 16th International Conference on Greenhouse Gas Control Technologies (GHGT-16), Lyon, France, October 23–27, 2022.

Kay, J.P., Laumb, J.D., Peck, W.D., and Connors, K.C., 2021, Matching capture technologies with point sources in the PCOR partnership region: White paper for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FE0031838, Grand Forks, North Dakota, Energy & Environmental Research Center, December.

Leroux, K.M., Ayash, S.C., Crossland, J.L., Livers-Douglas, A.J., Crocker, C.R., Connors, K.C., Hamling, J.A., and Willett, D., 2021, First North Dakota CCS project—advancing North Dakota ethanol economics: Paper presented at 15th Greenhouse Gas Control Technologies Conference (GHGT-15), virtual, March 15–18, 2021. DOI: 10.2139/ssrn.3812021.

Peck, W.P., Battle, E.P., Suedel, K.B., Glazewski, K.A., Connors, K.C., Sorensen, J.A., Hamling, J.A., Steadman, E.N., and Harju, J.A., 2021, PCOR Partnership atlas, 6th ed.: Prepared for the U.S. Department of Energy National Energy Technology Laboratory and the PCOR Partnership Initiative, Grand Forks, North Dakota, Energy & Environmental Research Center, 109 p.

Synergistic Activities

- Member, CCUS Legal and Regulatory Subgroup, 2021–present
- Member, Ground Water Protection Council Class VI Workgroup, 2021–present
- Member, Nebraska Oil and Gas Conservation Commission Rules Committee, 2021
- For the CarbonSAFE-North Dakota Phase II project, developed storage facility-permitting timeline for North Dakota's Class VI UIC program and incorporated the timeline into a general CO₂ storage project schedule.
- At the EERC, integrating legal and regulatory policy, economics, and tax perspectives with applied research related to incremental oil recovery, unconventional oil recovery, and CO₂ capture and geologic storage and developing Class VI UIC permitting strategies for commercial CO₂ storage in North Dakota.

CHARLENE R. CROCKER

Senior Research Scientist, Outreach Team Lead
701.777.5018 (phone), 701.777.5181 (fax), ccrocker@undeerc.org

Education and Training

B.S., Chemistry, University of North Dakota, 1994.

B.A., French, Colby College, Waterville, ME, 1986.

Research and Professional Experience

2002–Present: Senior Research Scientist, Outreach Team Lead, EERC, UND. Ms. Crocker's responsibilities include managerial and principal investigator duties for projects related to public outreach and scientific research. With respect to outreach, this included the development of public outreach programs for CO₂ sequestration, water, and fish advisories and the development of CO₂ sequestration public outreach materials, water quality education, and a water-based geoscience education program and outreach activities for middle and high school students. Research responsibilities included projects related to development of sorbents for emission control strategies in fossil fuel-fired energy systems; projects related to environmental management and air quality; collaborating with other scientists on the development of carbon-based flue gas sorbents, particulate matter (PM) sampling, evaluation of bioassessment tools, fish consumption survey development, proposal and report writing, data analysis, presentation of results, and budget tracking; developing PM-sampling protocols; and directing the activities of student assistants. Specific roles and activities include the following:

- Outreach Task Lead for the U.S. Department of Energy (DOE)–North Dakota Industrial Commission (NDIC)–Red Trail Energy (RTE)-funded Phase III Integrated Carbon Capture and Storage for North Dakota Ethanol Production project. Activities include public outreach materials development and support for research and fieldwork associated with project activities in Stark County, North Dakota.
- Outreach Task Lead and team member for the North Dakota CarbonSAFE Phase II project, funded by DOE, NDIC, Minnkota Power Cooperative, Basin Electric Power Cooperative, BNI Energy, North American Coal, and ALLETE Clean Energy. Activities include public outreach materials development and support for research and fieldwork associated with project activities in central North Dakota.
- Outreach Team member for the Wyoming CarbonSAFE Phase II project, funded by DOE, Basin Electric Power Cooperative, et al. Activities include public outreach materials development and consulting for research and fieldwork associated with project activities in central North Dakota.
- Program Coordinator and student supervisor for the EERC Energy Hawks internship program, funded by the State Energy Research Center at the EERC. Activities include development and implementation of an energy literacy syllabus for a multidisciplinary team of graduate and undergraduate students during a 10-week internship; supervision of student activities; and guidance in the development of white papers focused on value-added energy topics for North Dakota.

1994–2002: Research Chemist, EERC, UND. Ms. Crocker's responsibilities included managing projects relating to environmental management and air quality; collaborating with other scientists on fish consumption survey development, PM sampling, corrosion of ceramic and alloy materials, coal ash, water purification, and surface decontamination research; proposal and report writing, data analysis, presentation of results, and budget tracking; developing PM sampling protocols; participating in development of a water-based geoscience education program and outreach activities for school children; directing activities of student assistants; developing and implementing analytical methods employing LIBS. Previous duties performed in the Analytical Research Laboratory focused on water quality and energy-related analyses. Responsibilities included preparing and analyzing ultratrace element samples in aqueous and inorganic media using AAS, ICP, and IC; recording and disseminating

analytical results and quality control checks; performing research on ultratrace elemental analysis of mercury using AFS; and preparing reagents and solutions.

1993–1994: Research Assistant, EERC, UND. Ms. Crocker’s responsibilities included preparing and analyzing ultratrace element samples in inorganic media; performing research on ultratrace element analysis of mercury in air using AFS; and preparing reagents and solutions.

1990: Naturalist, Deep Portage Conservation Reserve, Hackensack, Minnesota. Ms. Crocker’s responsibilities included planning and conducting environmental education programs for children and adults; evaluating curriculum; and organizing lending of educational learning stations.

1988–1990: Sanctuary Manager, Wetlands, Pines & Prairie Audubon Sanctuary, Warren, Minnesota. Ms. Crocker’s responsibilities included planning and conducting environmental education programs; organizing chapter meetings; publishing the Sanctuary newsletter; and performing administrative tasks.

1988: Park Ranger/Interpreter, Boston Harbor Islands State Park, Boston, Massachusetts. Ms. Crocker’s responsibilities included interpreting natural and human history; developing special programs and leading walking tours of the islands; and conducting school programs.

Relevant Publications

- Crocker, C.R.; Krueger, N.M. Energy and CO₂ Management: Carbon Capture and Storage. Presented at 2023 Lignite Education Seminar, Bismarck, ND, June 13, 2023.
- Crocker, C.R.; Leroux, K.M.; Massmann, N.M.; Crossland, J.L.; Manthei, M.M.; Glazewski, K.A.; Daly, D.J.; Hamling, J.A. Public Outreach Package for Carbon Capture and Storage in North Dakota; Task 5 Deliverable D3 for North Dakota Industrial Commission Contract No. R-038-047; EERC, Feb 2020.
- Daly, D.J.; Crossland, J.L.; Crocker, C.R. Glazewski, K.A.; Massmann, N.M.; Peck, W.D. North Dakota CarbonSAFE Updated Outreach Plan Phase II, May 2019.
- Crocker, C.R.; Daly, D.J. Low-Carbon Energy for North Dakota [documentary short]; Dambach, B.; Olien, M., Site Producers; Prairie Public Broadcasting (PPB): Fargo, ND, and EERC, 2019.
- Crocker, C.R.; Daly, D.J. Coal: Engine of Change [DVD]; Dambach, B.; Steadman, E.N., Executive Producers; PPB and EERC, 2018.
- Daly, D.J.; Crocker, C.R.; Crossland, J.L.; Massmann, N.M.; Peck, W.D. North Dakota Integrated Carbon Storage Complex Feasibility Study; Deliverable D3 (Outreach Toolkit) for DOE Cooperative Agreement (CA) DE-FE0029488; EERC: Grand Forks, ND, Feb 2018.
- Daly, D.J.; Crossland, J.L.; Crocker, C.R.; Gorecki, C.D. Outreach Action Plan; Plains CO₂ Reduction (PCOR) Partnership Phase III Task 2 Deliverable D11 (Update 2) for DOE National Energy Technology Laboratory CA DE-FC26-05NT42592; EERC Publication 2016-EERC-09-02; March.
- Daly, D.J.; Crocker, C.R.; Gorecki, C.D. Regionwide Outreach in a Project-Level World – Lessons from the PCOR Partnership. *Energy Procedia* **2017**, *114*, 7224–7236.
- Crocker, C.R.; Daly, D.J.; Dambach, B.; Pearson, B.; Anderson, D. A Collaboration among PPB, Classroom Teachers, and the PCOR Partnership to Produce Classroom-Ready CCS lessons. Presented at the International Workshop on Public Education, Training, and Community Outreach for Carbon Capture, Utilization, and Storage, Decatur, IL, July 30, 2014.

Synergistic Activities

Outreach Team Lead (Oct 2018–present)/member of ND CarbonSAFE team (Phases II and III) since inception in June 2017, developing and implementing project outreach plan, facilitating Outreach Advisory Board, developing outreach materials, engaging educators and K–12 to post-secondary students on CCS, and providing input and guidance to project timelines, budgets, and objectives.

Outreach Team Lead (Jan 2019–Nov 2021)/member of RTE Ethanol CCS project since 2017, developing and implementing project outreach plan; developing outreach materials; handling media, talking points, and logistics for county commission appearances; preparing landowner packets and public notices for seismic surveys, environmental sampling events, and research results; overseeing logistics, preparing advertising, and developing materials for community open houses; and providing input and guidance to project timelines, budgets, and objectives.

Outreach Team member for Regional Carbon Sequestration Partnerships (RCSP) Initiative's PCOR Partnership Program since inception in 2003.

Associate Producer and Cowriter for seven CCS-related public television documentaries—*Coal: Engine of Change*, *The Bell Creek Story: CO₂ in Action*, *Global Energy and Carbon: Tracking Our Footprint*, *Managing Carbon Dioxide: The Geologic Solution*, *Out of the Air – Into the Soil: Land Practices That Reduce Atmospheric Carbon Levels*, *Reducing Our Carbon Footprint: The Role of Markets*, *Nature in the Balance: CO₂ Sequestration*.

Codeveloped 20 CBPs, six outreach plans, 23 outreach posters, numerous fact sheets, general public and educator and student presentations, and a website focused on aspects of CCS and CCS projects.

KATHERINE K. ANAGNOST

Senior Regulatory and Permitting Specialist

701.777.5437 (phone), 701.777.5181 (fax), kanagnost@undeerc.org

Education and Training

B.S., Legal Assistance, Moorhead State University, 1992.

Research and Professional Experience

2021–Present: Senior Regulatory and Permitting Specialist, Energy & Environmental Research Center (EERC), University of North Dakota (UND), Grand Forks, ND. Ms. Anagnost works with a multidisciplinary team of scientists, engineers, and business professionals to integrate permitting, regulatory, legal, policy, economics, and tax perspectives with technical information and applied research related to geologic CO₂ capture utilization and storage (CCUS), power generation, emissions reduction, and renewable energy systems. Ms. Anagnost currently supports the Plains CO₂ Reduction (PCOR) Partnership Initiative to Accelerate CCUS Deployment as the technology transfer task lead. In this role she informs and educates stakeholders about CCUS technologies and project development, with particular emphasis placed on issues related to infrastructure development strategies and regulatory frameworks. Ms. Anagnost supports public and industry outreach efforts through development of products and website content to inform and educate about the opportunities associated with CCUS.

2015–2021: NERC Compliance Coordinator, Minnkota Power Cooperative (MPC), Grand Forks, ND. Ms. Anagnost coordinated with technical and support teams to establish, maintain, and demonstrate compliance with corporate requirements and North American Electric Reliability Corporation (NERC) regulations. She spearheaded the effort to bring comprehensive Critical Infrastructure Program regulatory compliance to the Milton R. Young Generating Station within the scheduled implementation timeframe; coordinated a multidisciplinary team in the development of a new Critical Infrastructure Program regulatory supply chain risk management program within the required implementation time frame; achieved expedited industry consensus to regulatory modifications as participating member (and first MPC employee) on a NERC Standard Drafting Team, and served (as the first MPC employee) on a North American Transmission Forum peer review team.

2009–2015: Research Specialist/Project Manager, EERC, UND. Ms. Anagnost worked for the PCOR Partnership, one of seven regional partnerships funded by the U.S. Department of Energy's National Energy Technology Laboratory Regional Carbon Sequestration Partnership Program, to assess the technical and economic feasibility of capturing and storing (sequestering) CO₂ emissions in the northern Great Plains and adjacent areas. In this capacity, she facilitated the development of project plans for research data, presentations, technical reports, peer-reviewed articles, and proposals for projects involving CO₂ sequestration technologies. Her work also included development, management, and dissemination of market-oriented materials for programs focused on CO₂ sequestration, including public outreach and education via print, video, and web forums.

2006–2009: Contracts Officer, EERC, UND. Ms. Anagnost's responsibilities included preparing, reviewing, negotiating, and administering sponsored research agreements, in-kind agreements, subcontracts, hotel agreements, and confidentiality agreements in accordance with federal and nonfederal contractual requirements, government and university regulations and policies, and EERC policies; disclosing intellectual property (IP) to research sponsors, including government agencies; tracking important contractual and U.S. Patent and Trademark Office compliance dates associated with IP; and effectively communicating and maintaining daily contact with research sponsors, agency representatives, UND employees, and EERC employees via telephone, email, and/or letter.

1994–2006: Legal Assistant, MPC. Ms. Anagnost's responsibilities included assisting legal counsel in the representation of Minnkota and six distribution cooperative member-owners, including drafting corporate governance documents, assisting with environmental matters including compliance with polychlorinated biphenyl use, storage, disposal, and recordkeeping, preparing and submitting federal

environmental reports for proposed cooperative construction activities; coordinating with engineering consultant and technical department supervisors on the preparation and organization of Spill Prevention Control and Countermeasures (SPCC) Plans; reviewing federal regulations and determining potential impacts and/or ensuring compliance; writing articles for corporate publications; and leading the Minnesota member-owner utilities compliance with the Conservation Improvement Program, created to provide improved awareness and adoption of energy efficient technologies and reduced energy costs for Minnesota households. In this role, she worked with regional Community Action Agencies on development of energy conservation measures benefitting low-income households.

Relevant Publications

Connors, K.C.; Nakles, D.V.; Anagnost, K.K.; McKenzie, S.L.; Stevens, C.R.; Hunt, J.E.; Regorrah, J.G.; Peck, E.N.; Olsen, C.M.; Livers-Douglas, A.J. *Regulatory Frameworks and Permitting Considerations for Geologic Storage of Carbon Dioxide in the PCOR Partnership Region: Plains CO₂ Reduction (PCOR) Partnership Initiative Task 5 Deliverable 8a for North Dakota Industrial Commission Contract Nos. FY20-XCI-226 and G-050-96; EERC Publication 2023-EERC-01-04; Energy & Environmental Research Center: Grand Forks, ND, Jan 2023.*

Anagnost, K.K., Peck, W.D., Regorrah, J.G., Livers-Douglas, A.J., Connors, K.C., and Mikula, S.R., 2022, North Dakota CarbonSAFE Phase III—permitting geologic storage of carbon dioxide: North Dakota CarbonSAFE Phase III Topical Report Task 5 Deliverable 6 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FE0031889, Grand Forks, North Dakota, Energy & Environmental Research Center, September.

Gorecki, C.D.; Harju, J.A.; Steadman, E.N.; Romuld, L.; Hamling, J.A.; Sorensen, J.A.; Botnen, L.S.; Daly, D.J.; Jensen, M.D.; Peck, W.D.; Smith, S.A.; Klapperich, R.J.; Anagnost, K.K.; Votava, T.J. *Annual Assessment Report; Plains CO₂ Reduction (PCOR) Partnership Phase III Task 12 Deliverable D57 (Oct 1, 2013 – Sept 30, 2014) for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592; EERC Publication 2015-EERC-02-04; Energy & Environmental Research Center: Grand Forks, ND, Feb 2015.*

Gorecki, C.D.; Steadman, E.N.; Harju, J.A.; Hamling, J.A.; Sorensen, J.A.; Peck, W.D.; Daly, D.J.; Jensen, M.D.; Klapperich, R.J.; Ayash, S.C.; Anagnost, K.K. *Implementing Carbon Capture and Storage: An Overview of the Plains CO₂ Reduction Partnership. Presented at the 10th CO₂GeoNet Open Forum, San Servolo Island, Venice, Italy, May 11–12, 2015.*

Gorecki, C.D.; Hamling, J.A.; Sorensen, J.A.; Peck, W.D.; Daly, D.J.; Jensen, M.D.; Klapperich, R.J.; Ayash, S.C.; Anagnost, K.K.; Steadman, E.N.; Harju, J.A. *Implementing Carbon Capture and Storage: An Overview of the Plains CO₂ Reduction Partnership. Presented at the 14th Annual Carbon Capture, Utilization & Storage Conference, Pittsburgh, PA, April 28 – May 1, 2015.*

Crocker, C.R.; Crossland, J.L.; Chimote, S.A.; Daly, D.J.; Anagnost, K.K.; Gorecki, C.D.; Steadman, E.N.; Harju, J.A. *Public Site Updates; Plains CO₂ Reduction (PCOR) Partnership Phase III Task 2 Deliverable D13 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592; EERC Publication 2014-EERC-09-06; Energy & Environmental Research Center: Grand Forks, ND, July 2014.*

Synergistic Activities

- Ms. Anagnost currently serves as the President and Vice President of Education (2022–2023) of the Powerhouse Toastmasters Club No. 9663. This club was organized in 1993, and boasts multiple Distinguished Club Program awards for meeting membership prerequisites and goal achievement. She previously held the offices of Treasurer (2021–2022) and Vice President of Education (2019–2021).
- Ms. Anagnost was awarded the club Toastmaster of the Year in 2020 in recognition of dedicated and distinguished service.

WESLEY D. PECK

Assistant Director for Subsurface Strategies
701.777.5195 (phone), 701.777.5181 (fax), wpeck@undeerc.org

Education and Training

M.S., Geology, University of North Dakota, 1992. Thesis: The Stratigraphy and Sedimentology of the Sentinel Butte Formation (Paleocene) in South-Central Williams County, North Dakota.
B.S., Earth Science, North Dakota State University, 1987.

Research and Professional Experience

2020–Present: Assistant Director for Subsurface Strategies, Energy & Environmental Research Center (EERC), University of North Dakota (UND), Grand Forks, ND. Leads efforts in subsurface resource development with emphasis on Williston and Powder River Basins. Serves as principal investigator (PI) on multiyear U.S. Department of Energy (DOE)-sponsored North Dakota CarbonSAFE Phase III Characterization and Permitting project. Served as task lead and PI for regional geologic characterization component of Plains CO₂ Reduction Partnership (PCOR) Partnership Program, focused on CO₂ storage in central North America. Led full-CO₂-chain techno-economic investigation in North Dakota linking lignite mining and electric generation to CO₂ EOR. Expertise includes geology, geologic storage of CO₂, CO₂ enhanced oil recovery (EOR), and geographic information systems (GIS).

2015–2019: Principal Geologist, EERC, UND. Involved in subsurface resource development with emphasis on Williston and Powder River Basins. Served as PI on multiyear DOE-sponsored North Dakota CarbonSAFE Feasibility project. Served as task lead and PI for regional geologic characterization component of PCOR Partnership Program. Led full-CO₂-chain techno-economic investigation in North Dakota linking lignite mining and electric generation to CO₂ EOR.

2011–2015: Research Manager, EERC, UND. Oversaw staff of geologists and GIS specialists involved with oil and gas research activities in Williston Basin as well as regional geologic characterization activities associated with PCOR Partnership.

1991–2011: Research Scientist, EERC, UND. Oversaw major EERC GIS activities, served as task lead for regional characterization component of PCOR Partnership, and wrote reports and proposals.

1989–1991: Graduate Research Assistant, EERC, UND. Acquired and managed geologic data related to Cretaceous and Tertiary geology of Williston Basin. Assisted in collection of Cretaceous and Tertiary fossils and stratigraphic information in western North Dakota and eastern Montana.

Relevant Publications

Warmack, M.P., Azzolina, N.A., Nakles, D.V., Peck, W.D., Connors, K.C., Lagorin, W., Lagorin, T., Blumenthal, T., Hanslik, J., and Shendye, R., 2022, Pipeline cost and CO₂ transport considerations based on three hypothetical pipelines in the PCOR Partnership Initiative region: White paper for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FE0031838 and North Dakota Industrial Commission Contract Nos. FY20-XCI-226 and G-050-96, Grand Forks, North Dakota, Energy & Environmental Research Center, February.
Warmack, M.P., Azzolina, N.A., Nakles, D.V., Peck, W.D., Kurz, B.A., and Hamling, J.A., 2022, Balancing CO₂ pipeline infrastructure challenges: Poster presented at the AAPG Carbon Capture, Utilization, and Storage Conference, Houston, Texas, March 28–30, 2022.

- Peck, W.D., Ayash, S.C., Klapperich, R.J., and Gorecki, C.D., 2019, The North Dakota integrated carbon storage complex feasibility study: *International Journal of Greenhouse Gas Control*, v. 84, p. 47–53. DOI: 10.1016/j.ijggc.2019.03.001.
- Bosshart, N.W., Azzolina, N.A., Ayash, S.C., Peck, W.D., Gorecki, C.D., Ge, J., Jiang, T., and Dotzenrod, N.W., 2018, Quantifying the effects of depositional environment on deep saline formation CO₂ storage efficiency and rate: *International Journal of Greenhouse Gas Control*, v. 69, p. 8–19.
- Bosshart, N.W., Pekot, L.J., Wildgust, N., Gorecki, C.D., Torres, J.A., Jin, L., Ge, J., Jiang, T., Heebink, L.V., Kurz, M.C., Dalkhaa, C., Peck, W.D., and Burnison, S.A., 2018, Best practices for modeling and simulation of CO₂ storage: Plains CO₂ Reduction (PCOR) Partnership Phase III Task 9 Deliverable D69 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2018-EERC-03-13, Grand Forks, North Dakota, Energy & Environmental Research Center, March.
- Daly, D.J., Crocker, C.R., Crossland, J.L., Massmann, N.M., and Peck, W.D., 2018, North Dakota integrated carbon storage complex feasibility study: Deliverable D3 (outreach toolkit) for U.S. Department of Energy Cooperative Agreement No. DE-FE0029488, Grand Forks, North Dakota, Energy & Environmental Research Center, February.
- Nakles, D.V., Peck, W.D., Wildgust, N., Hamling, J.A., Gorecki, C.D., Steadman, E.N., and Harju, J.A., 2017, Geologic storage of carbon dioxide in the central plains of North America: 2017 American Institute of Chemical Engineers (AIChE) Annual Meeting, Minneapolis, Minnesota, October 29 – November 3, 2017.
- Glazewski, K.A., Grove, M.M., Peck, W.D., Gorecki, C.D., Steadman, E.N., and Harju, J.A., 2015, Characterization of the PCOR Partnership region: Plains CO₂ Reduction (PCOR) Partnership value-added report for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2015-EERC-02-14, Grand Forks, North Dakota, Energy & Environmental Research Center, January.
- Peck, W.D., Glazewski, K.A., Braunberger, J.R., Grove, M.M., Bailey, T.P., Bremer, J.M., Gorz, A.J., Sorensen, J.A., Gorecki, C.D., and Steadman, E.N., 2014, Broom Creek Formation outline: Plains CO₂ Reduction (PCOR) Partnership Phase III value-added report for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2014-EERC-09-09, Grand Forks, North Dakota, Energy & Environmental Research Center, August.
- Peck, W.D., Liu, G., Klenner, R.C.L., Grove, M.M., Gorecki, C.D., Steadman, E.N., and Harju, J.A., 2014, Storage capacity and regional implications for large-scale storage in the basal Cambrian system: Plains CO₂ Reduction (PCOR) Partnership Phase III Task 16 Deliverable D92 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2014-EERC-05-12, Grand Forks, North Dakota, Energy & Environmental Research Center, March.

Synergistic Activities

- Leads CarbonSAFE Phase III characterization and permitting study.
- Led CarbonSAFE study investigating two locations in North Dakota to determine feasibility of storing 2 million tons of CO₂ at one location and 4 million tons of CO₂ at the second location.
- Led full-CO₂-chain techno-economic investigation in North Dakota linking lignite mining and electric generation to CO₂ EOR.
- Led regional characterization activities for the PCOR Partnership Program to determine CO₂ storage resource potential of viable saline reservoirs in the central part of North America.
- Led geologic modeling and simulation assessment of CO₂ storage resource of the 500,000-mi² basal saline aquifer system of the Williston and Alberta Basins.

KYLE A. GLAZEWSKI

Principal Analyst, Data/GIS Team Lead
701.777.5421 (phone), 701.777.5181 (fax), kglazewski@undeerc.org

Education and Training

M.S., Geography, University of North Dakota, 2005.

B.S., Geography, University of North Dakota, 2003.

Software experience includes ESRI ArcView 3.2 and 3.3, ArcMap 8.x, ArcGIS 9.x, and ArcGIS 10.x; Spatial Analyst Extension for GIS; ERDAS Imagine; HYSPLIT (Hybrid Single-Particle Lagrangian Integrated Trajectory) atmospheric dispersion model; AnnAGNPS (Annual Agricultural Non-Point Source Pollution) watershed model; Soil and Water Assessment Tool (SWAT); and Microsoft Office Suite.

Research and Professional Experience

2008–Present: Principal Analyst, Data/GIS Team Lead, Energy & Environmental Research Center (EERC), University of North Dakota (UND), Grand Forks, ND. Mr. Glazewski oversees data analysis and geographic information system (GIS) activities in oil and gas research. Mr. Glazewski’s work primarily supports carbon capture, utilization, and storage (CCUS) project activities including storage facility permit development, monitoring programs, and site characterization. He is involved in a variety of oil and gas activities including produced water management and wellbore integrity evaluations.

2005–2008: Watershed Coordinator, Grand Forks County Soil Conservation District, Grand Forks, ND. Mr. Glazewski’s responsibilities involved administering and managing all aspects of two U.S. Environmental Protection Agency 319 water quality projects, including field data collection, watershed modeling with GIS template, data organization and analysis, final assessment report preparation, project implementation proposal writing, assisting with total maximum daily load (TMDL) development, assisting with water quality assessment project planning, budget management and planning, public outreach, and assisting landowners with conservation planning to improve water quality as well as working with other agencies on water quality projects.

2005: Associate Geographic Technician, Special Projects Team, NAVTEQ, Fargo, ND. Mr. Glazewski’s responsibilities included updating a global mapping database, completing quality checks on map data, helping develop steps for a new network updating process using ArcMap 8.3 software, providing feedback to simplify the process.

2003–2005: Graduate Teaching Assistant, Department of Geography, UND, Grand Forks, ND. Mr. Glazewski’s responsibilities included teaching Introduction to Physical Geography and Introduction to Climatology labs and assisting department professors as needed.

2002–2003: GIS Technician, Upper Midwest Aerospace Consortium, Grand Forks, ND. Mr. Glazewski worked on a western North Dakota wetlands project and a study of greenhouse gases in agricultural fields in eastern North Dakota and western Minnesota, including creating ArcGIS maps and land use maps and collecting and organizing field data.

Relevant Publications

Laumb, J.D., Glazewski, K.A., Hamling, J.A., Azenkeng, A., and Watson, T.L., 2016, Wellbore corrosion and failure assessment for CO₂ EOR and storage—two case studies in the Weyburn Field: International Journal of Greenhouse Gas Control, v. 54, p. 479–489.

Peck, W.P., Battle, E.P., Suedel, K.B., Glazewski, K.A., Connors, K.C., Sorensen, J.A., Hamling, J.A., Steadman, E.N., and Harju, J.A., 2021, PCOR Partnership atlas, 6th ed.: Prepared for the U.S.

- Department of Energy National Energy Technology Laboratory and the PCOR Partnership Initiative, Grand Forks, North Dakota, Energy & Environmental Research Center, 109 p.
- Peck, W.A., Glazewski, K.A., Klenner, R.C.L., Gorecki, C.D., Steadman, E.N., and Harju, J.A., 2014, A workflow to determine CO₂ storage potential in deep saline formations: *Energy Procedia*, v. 63, p. 5231–5238.
- Glazewski, K.A., Martin, C.L., Salazar, A.Y., Beddoe, C.J., Nyberg, C.M., Taunton, M.A., Regorrah, J.G., Kurz, M.D., Connors, K.C., Vritis, J.L., Heebink, L.V., Schmidt, D.D., Hamling, J.A., Kurz, B.A., Sorensen, J.A., Zhang, X., and Dalkhaa, C. 2022, Subtask 3.2 – Produced water management through geologic homogenization, conditioning, and reuse: Final topical report (February 1, 2020 – January 31, 2022) for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FE0024233, EERC Publication 2022-EERC-01-10, Grand Forks, North Dakota, Energy & Environmental Research Center, January.
- Crocker, C.R., Leroux, K.M., Massmann, N.M., Crossland, J.L., Manthei, M.M.; Glazewski, K.A., Daly, D.J., and Hamling, J.A., 2020, Public outreach package for carbon capture and storage in North Dakota: Task 5 Deliverable D3 for North Dakota Industrial Commission Contract No. R-038-047, Grand Forks, North Dakota, Energy & Environmental Research Center, February.
- Glazewski, K.A., Aulich, T.R., Wildgust, N., Nakles, D.V., Azzolina, N.A., Hamling, J.A., Burnison, S.A., Livers-Douglas, A.J., Peck, W.D., Klapperich, R.J., Sorensen, J.A., Ayash, S.C., Gorecki, C.D., Steadman, E.N., Harju, J.A., Stepan, D.J., Kalenze, N.S., Musich, M.A., Leroux, K.M., and Pekot, L.J., 2018, Best practices manual – monitoring for CO₂ storage: Plains CO₂ Reduction (PCOR) Partnership Phase III Task 9 Deliverable D51 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2018-EERC-03-15, Grand Forks, North Dakota, Energy & Environmental Research Center, March.
- Glazewski, K.A., Aulich, T.R., Wildgust, N., Nakles, D.V., Hamling, J.A., Burnison, S.A., Livers, A.J., Salako, O., Sorensen, J.A., Ayash, S.C., Pekot, L.J., Bosshart, N.W., Gorz, A.J., Peck, W.D., and Gorecki, C.D., 2017, Best practices manual (BPM) for site characterization: Plains CO₂ Reduction (PCOR) Partnership Phase III Task 4 Deliverable D35 for U.S. Department of Energy National Energy Technology Laboratory Cooperative Agreement No. DE-FC26-05NT42592, EERC Publication 2017-EERC-06-08, Grand Forks, North Dakota, Energy & Environmental Research Center, March.
- Leroux, K.M., Klapperich, R.J., Azzolina, N.A., Jensen, M.D., Kalenze, N.S., Bosshart, N.W., Torres Rivero, J.A., Jacobson, L.L., Ayash, S.C., Nakles, D.V., Jiang, T., Oster, B.S., Feole, I.K., Fiala, N.J., Schlasner, S.M., Wilson IV, W.I., Doll, T.E., Hamling, J.A., Gorecki, C.D., Pekot, L.J., Peck, W.D., Harju, J.A., Burnison, S.A., Stevens, B.G., Smith, S.A., Butler, S.K., Glazewski, K.A., Piggott, B., and Vance, A.E., 2017, Integrated carbon capture and storage for North Dakota ethanol production: Final report (November 1, 2016 – May 31, 2017) for North Dakota Industrial Commission and Red Trail Energy, Grand Forks, North Dakota, Energy & Environmental Research Center, May.
- Burton-Kelly, M.E., Peck, W.D., Glazewski, K.A., and Doll, T.E., 2014, Evaluation of near-term (5-year) potential for carbon dioxide enhanced oil recovery in conventional oil fields in North Dakota: Final report for Kadmas, Lee & Jackson, EERC Publication 2014-EERC-07-07, Grand Forks, North Dakota, Energy & Environmental Research Center, July.
- Glazewski, K.A., Hamling, J.A., Peck, W.D., Doll, T.E., Laumb, J.D., Gorecki, C.D., Steadman, E.N., and Harju, J.A., 2014, A regional wellbore evaluation of the basal Cambrian system: *Energy Procedia*, v. 63, p. 5715–5723.

Synergistic Activities

- Evaluates regional- and field-scale wellbore integrity utilizing GIS and available wellbore data.
- Evaluating CCUS build-out scenarios through PCOR Partnership activities.
- Task 4 lead (regional infrastructure) for the current PCOR Partnership Initiative.
- Utilizing GIS in carbon capture and storage-related activities.

APPENDIX C
BUDGET NOTES

BUDGET NOTES

ENERGY & ENVIRONMENTAL RESEARCH CENTER (EERC)

BACKGROUND

The EERC is an independently organized multidisciplinary research center within the University of North Dakota (UND). The EERC is funded through federal and nonfederal grants, contracts, and other agreements. Although the EERC is not affiliated with any one academic department, university faculty may participate in a project, depending on the scope of work and expertise required to perform the project.

INTELLECTUAL PROPERTY

The applicable federal intellectual property (IP) regulations will govern any resulting research agreement(s). In the event that IP with the potential to generate revenue to which the EERC is entitled is developed under this project, such IP, including rights, title, interest, and obligations, may be transferred to the EERC Foundation, a separate legal entity.

BUDGET INFORMATION

The proposed work will be done on a cost-reimbursable basis. The distribution of costs between budget categories (labor, travel, supplies, equipment, etc.) and among funding sources of the same scope of work is for planning purposes only. The project manager may incur and allocate allowable project costs among the funding sources for this scope of work in accordance with Office of Management and Budget (OMB) Uniform Guidance 2 CFR 200.

Escalation of labor and EERC recharge center rates are incorporated into the budget when a project's duration extends beyond the university's current fiscal year (July 1 – June 30). Escalation is calculated by prorating an average annual increase over the anticipated life of the project.

The cost of this project is based on a specific start date indicated at the top of the EERC budget. Any delay in the start of this project may result in a budget increase. Budget category descriptions presented below are for informational purposes; some categories may not appear in the budget.

Salaries: Salary estimates are based on the scope of work and prior experience on projects of similar scope. The labor rate used for specifically identified personnel is the current hourly rate for that individual. The labor category rate is the average rate of a personnel group with similar job descriptions. Salary costs incurred are based on direct hourly effort on the project. Faculty who work on this project may be paid an amount over the normal base salary, creating an overload which is subject to limitation in accordance with university policy. As noted in the UND EERC Cost Accounting Standards Board Disclosure Statement, administrative salary and support costs that can be specifically identified to the project are direct-charged and not charged as facilities and administrative (F&A) costs. Costs for general support services such as contracts and IP, accounting, human resources, procurement, and clerical support of these functions are charged as F&A costs.

Fringe Benefits: Fringe benefits consist of two components that are budgeted as a percentage of direct labor. The first component is a fixed percentage approved annually by the UND cognizant audit agency, the Department of Health and Human Services. This portion of the rate covers vacation, holiday, and sick leave (VSL) and is applied to direct labor for permanent staff eligible for VSL benefits. Only the actual approved rate will be charged to the project. The second component is estimated on the basis of historical data and is charged as actual expenses for items such as health, life, and unemployment insurance; social security; worker's compensation; and UND retirement contributions.

Travel: Travel may include site visits, fieldwork, meetings, and conferences. Travel costs are estimated and paid in accordance with OMB Uniform Guidance 2 CFR 200, Section 474, and UND travel policies, which can be found at <http://und.edu/finance-operations> (Policies & Procedures, A–Z Policy Index, Travel). Daily meal rates are based on U.S. General Services Administration (GSA) rates unless further limited by UND travel policies; other estimates such as airfare, lodging, ground transportation, and miscellaneous costs are based on a combination of historical costs and current market prices. Miscellaneous travel costs may include parking fees, Internet charges, long-distance phone, copies, faxes, shipping, and postage.

Supplies: Supplies include items and materials that are necessary for the research project and can be directly identified to the project. Supply and material estimates are based on prior experience with similar projects. Examples of supply items are chemicals, gases, glassware, nuts, bolts, piping, data storage, paper, memory, software, toner cartridges, maps, sample containers, minor equipment (value less than \$5000), signage, safety items, subscriptions, books, and reference materials. General purpose office supplies (pencils, pens, paper clips, staples, Post-it notes, etc.) are included in the F&A cost.

Subcontractor – TBD Graphic Design: Graphic design support for handouts, outreach, website, and public engagement. Cost based on historical cost from previous work.

Subcontractor – TBD Workshop Partner: For an industry expert to lead a workshop for stakeholders. Cost based on historical cost from previous work.

Professional Fees: Not applicable.

Communications: Telephone, cell phone, and fax line charges are included in the F&A cost; however, direct project costs may include line charges at remote locations, long-distance telephone charges, postage, and other data or document transportation costs that can be directly identified to a project. Estimated costs are based on prior experience with similar projects.

Printing and Duplicating: Page rates are established annually by the university's duplicating center. Printing and duplicating costs are allocated to the appropriate funding source. Estimated costs are based on prior experience with similar projects.

Food: Food for hosting listening sessions, focus groups, and engagement trips with community stakeholders. EERC employees in attendance will not receive per diem reimbursement for meals that are paid by project funds. The estimated cost is based on the number and location of previous meetings.

Rent and Leases – Venue: Venue rental for listening sessions, focus groups, and engagement trips with community stakeholders. 18 rentals at \$300.

Honorarium: Nominal compensation for stakeholders to participate in listening sessions and focus groups. Based on 12 sessions with 8 people at \$50 per.

Operating Fees: Operating fees generally include EERC recharge centers, outside laboratories, and freight.

EERC recharge center rates are established annually and approved by the university.

Document production services recharge fees are based on an hourly rate for production of such items as report figures, posters, and/or images for presentations, maps, schematics, website design, brochures, and photographs. The estimated cost is based on prior experience with similar projects.

Engineering services recharge fees cover specific expenses related to retaining qualified and certified design and engineering personnel. The rate includes training to enhance skill sets and maintain certifications using Webinars and workshops. The rate also includes specialized safety training and related physicals. The estimated cost is based on the number of hours budgeted for this group of individuals.

Geoscience services recharge fees are discipline fees for costs associated with training, certifications, continuing education, and maintaining required software and databases. The estimated cost is based on the number of hours budgeted for this group of individuals.

Facilities and Administrative Cost: The F&A rate proposed herein is approved by the U.S. Department of Health and Human Services and is applied to modified total direct costs (MTDC). MTDC is defined as total direct costs less individual capital expenditures, such as equipment or software costing \$5000 or more with a useful life of greater than 1 year, as well as subawards in excess of the first \$25,000 for each award.

APPENDIX D

EERC PROJECTS FUNDED BY THE NORTH DAKOTA INDUSTRIAL COMMISSION IN THE LAST 5 YEARS

EERC PROJECTS FUNDED BY THE NORTH DAKOTA INDUSTRIAL COMMISSION IN THE LAST 5 YEARS

Project Name	Start Date	End Date	Total Contracted
Bakken Production Optimization Program 2.0	11/01/16	05/31/20	\$6,000,000.00
Initial Engineering, Testing, and Design of a Commercial-Scale CO ₂ Capture System	09/01/17	12/31/19	\$3,200,000.00
FERR 1.3 – Integrated Carbon Capture and Storage for North Dakota Ethanol Production	11/01/17	07/31/18	\$345,000.00
iPIPE: The intelligent Pipeline Integrity Program	04/01/18	12/31/23	\$2,600,000.00
Economic Extraction and Recovery of REES and Production of Clean Value-Added Products from Low-Rank Coal Fly Ash	06/16/18	02/15/20	\$30,000.00
Low-Pressure Electrolytic Ammonia Production	06/16/18	06/30/22	\$437,000.00
FERR 1.3 – Integrated Carbon Capture and Storage for North Dakota Ethanol Production	12/01/18	05/31/20	\$500,000.00
State Energy Research Center	07/01/19	06/30/27	\$20,000,000.00
Underground Storage of Produced Natural Gas – Conceptual Evaluation and Pilot Project(s)	06/01/19	06/30/23	\$3,500,000.00
Assessment of Bakken and Three Forks Natural Gas Compositions	11/01/19	06/19/20	\$300,650.00
Improving EOR Performance Through Data Analytics and Next-Generation Controllable Completions	01/27/20	09/30/24	\$500,000.00
Wastewater Recycling Using a Hygroscopic Cooling System	01/31/20	09/30/22	\$100,000.00
PCOR Partnership Initiative to Accelerate CCUS Deployment	02/01/20	09/30/24	\$2,000,000.00
PCOR Partnership Initiative to Accelerate CCUS Deployment	02/01/20	09/30/24	\$2,000,000.00
FERR 3.2 – Produced Water Management Through Geologic Homogenization, Conditioning, and Reuse	02/01/20	01/31/22	\$300,000.00
Bakken Production Optimization Program 3.0	05/01/20	04/30/23	\$6,000,000.00
EERC Technical Support for RTE CCS Activities – November 1, 2019	06/01/20	11/30/21	\$500,000.00
Flue Gas Characterization and Testing	07/01/20	11/30/21	\$3,741,450.00
Laboratory-Scale Coal-Derived Graphene Process	09/01/20	04/30/23	\$162,500.00
Hydrogen Energy Development for North Dakota	07/01/21	06/30/23	\$500,000.00
Ammonia-Based Energy Storage Technology	04/01/21	03/31/23	\$101,390.00
Field Study to Determine the Feasibility of Developing Salt Caverns for Hydrocarbon Storage in Western North Dakota	07/01/21	06/30/23	\$11,900,000.00
Williston Basin CORE-CM Initiative	02/01/22	05/31/23	\$750,000.00
Front-End Engineering and Design for CO ₂ Capture at Coal Creek Station	02/01/22	08/31/23	\$7,000,000.00
Unitized Legacy Oil Fields: Prototypes for Revitalizing Conventional Oil Fields in North Dakota	07/01/21	06/30/24	\$3,000,000.00
iPIPE 2.0: The intelligent Pipeline Integrity Program	01/01/22	12/31/23	\$400,000.00
Advanced Processing of Coal and Waste Coal to Produce Graphite for Fast-Charging Lithium-Ion Battery	02/01/22	01/31/25	\$500,000.00
Liberty H ₂ Hub Front-End Engineering and Design	11/01/22	10/31/24	\$10,000,000.00



LIGNITE RESEARCH PROGRAM PROJECT MANAGEMENT REPORT

Reice Haase, Deputy Executive Director, NDIC

November 28, 2023

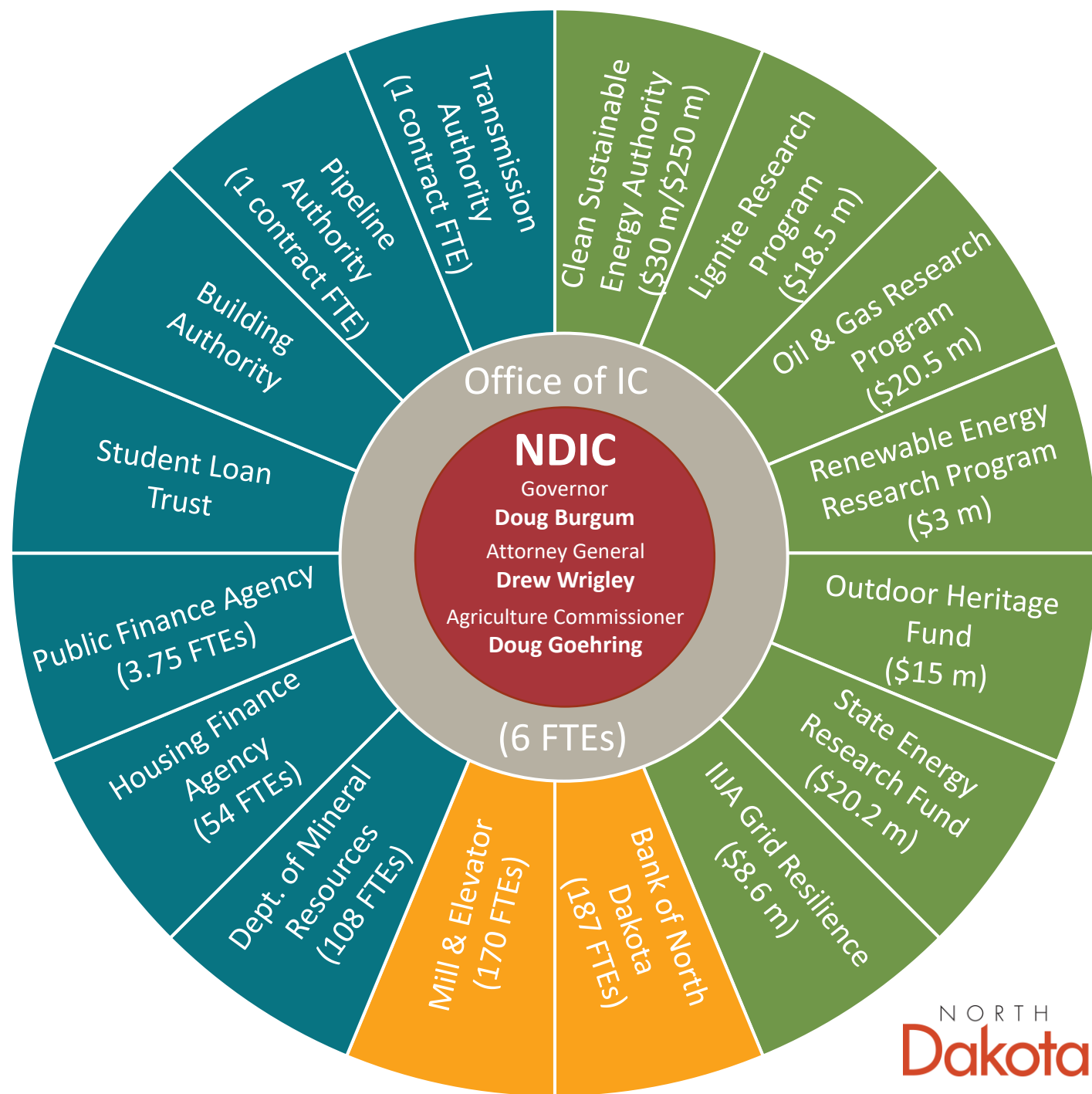
NORTH
Dakota

Be Legendary.™

Industries, Agencies, and Programs

Legend

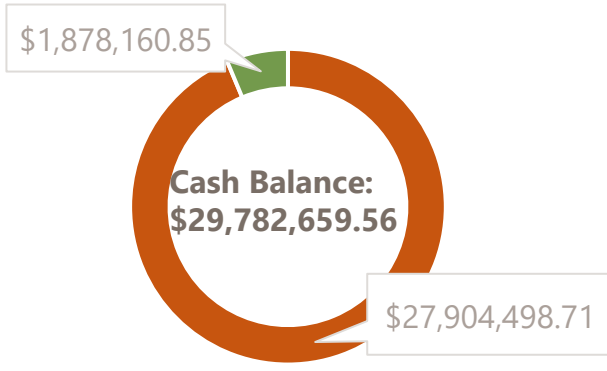
- Commission
- Office of IC
- Agency Role
- Grant Program
- State-Owned Enterprise



Updated to reflect 68th Legislative Assembly changes

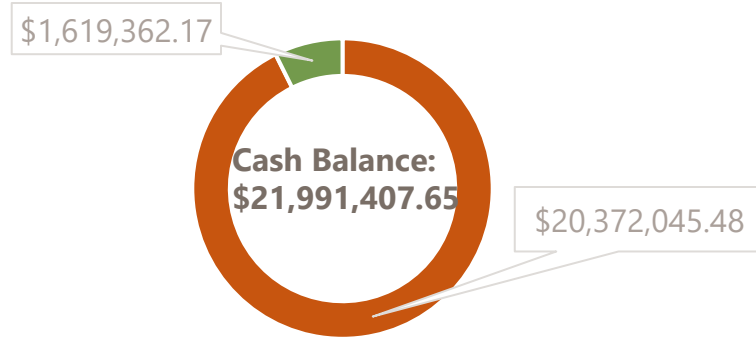
INDUSTRIAL COMMISSION-MANAGED FUNDS

Lignite Research Fund



■ Committed ■ Uncommitted

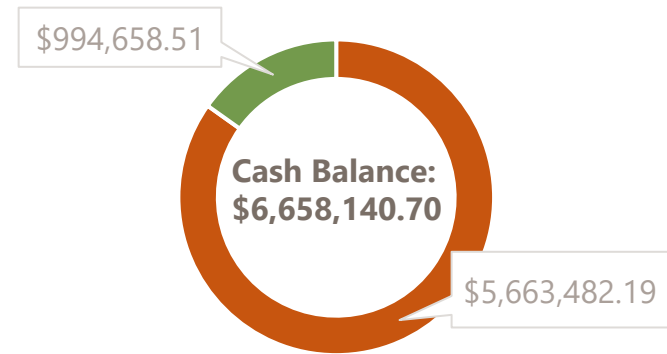
Oil and Gas Research Fund*



*Does not include SIIF or Gas Capture

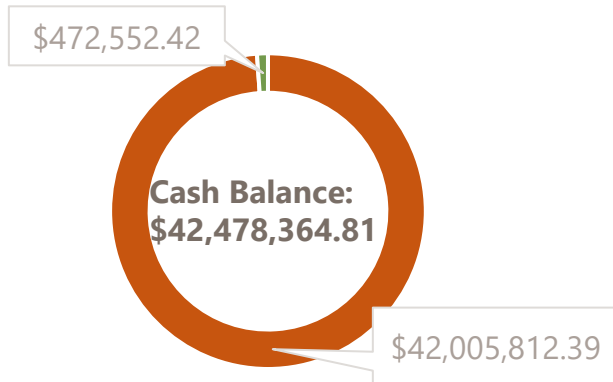
■ Committed ■ Uncommitted

Renewable Energy Fund



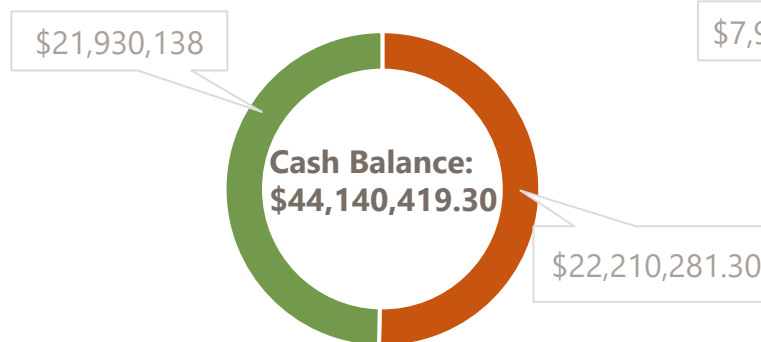
■ Committed ■ Uncommitted

Outdoor Heritage Fund



■ Committed ■ Uncommitted

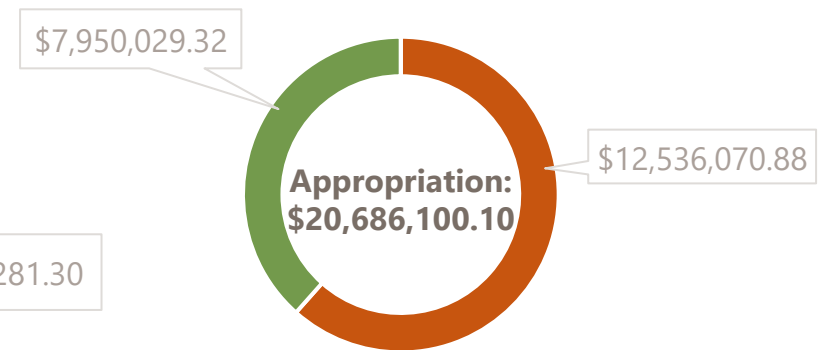
CSEA Fund*



*Does not include ARPA or Loans

■ Committed ■ Uncommitted

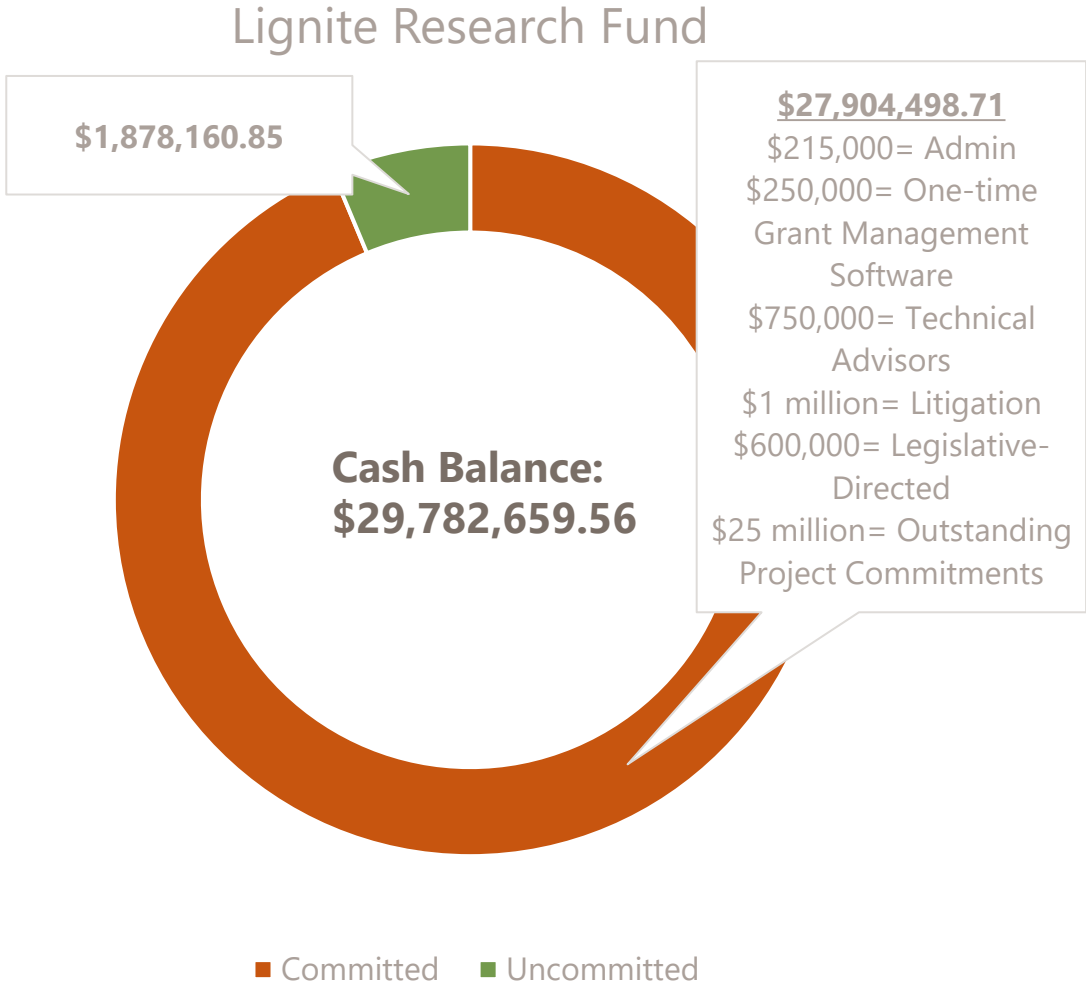
SERC Fund



■ Leg. Directed ■ Remaining ■ Spent

LIGNITE RESEARCH FUND BALANCE

NOVEMBER 9TH, 2023



Funding Source:

- Coal severance and conversion taxes (\$8.5 million)
- \$10 million oil extraction tax



254 Cumulative Projects



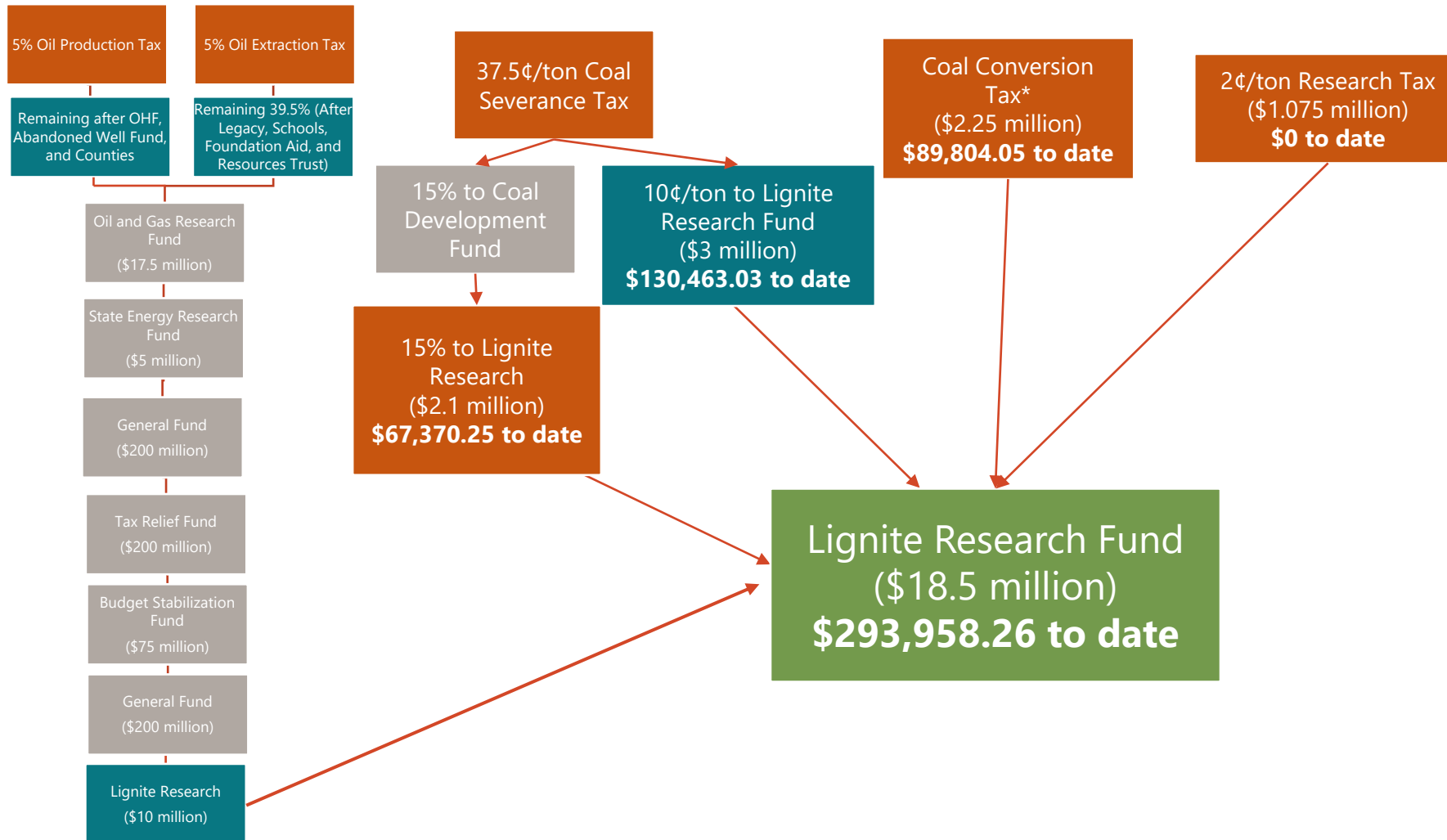
28 Active Projects



Cumulative Value:

- \$134.8 million granted
- \$2.7 billion project value

2023-2025 BIENNIUM APPROPRIATION AND FORECASTED INCOME



LRC-103A

Title: “High-Value Products from Produced Water Mineralization via Reaction with Anthropogenic CO₂”

Submitted By: Semplastics

PM/PI: Walter Sherwood

Duration: 12 Months

Purpose: Semplastics is teamed with the EERC and requesting funding to perform a project focused on production of building materials from produced water and CO₂. The objective is to develop and demonstrate a cost-effective method to mineralize sodium, lithium, and other elements in the brine while capturing and storing CO₂. The carbonates would be used to produce samples of building products such as panels, coated mixed carbonates in polypropylene, and sodium carbonate or other commercially useful sodium compounds. The request is for \$100,000 from the lignite research program, with the balance from Semplastics (primarily through a DOE grant) for a total project cost of \$356,494.

Funding: NDIC: \$100,000; Total Project Costs: \$356,494

Technical Advisor’s Recommendation:

Fund – The proposed project focuses on development and demonstration of value-added products from lignite utilization while storing CO₂. This would be the first step of demonstrating the technology for producing additional building materials. Two of the technical reviewers recommended funding while the third reviewer recommended funding may be considered. The proposal received an average score of 204 out of 250. The project provides good leveraging state funding by including roughly 72 percent of funding as cost-share.

Funding would be subject to:

- Technical advisor participates in project reviews
- Technical advisor reviews the project management plan with the project team

Conflicts of Interest: EERC

Reviewers: Fund - 2; Consider Funding - 1; Do Not Fund – 0

LRC: Fund: Yes - 15; No – 1; Abstain - 1

September 29, 2023

Mr. Reice Haase
Deputy Executive Director
ATTN: Lignite Research Program
North Dakota Industrial Commission
State Capitol – 14th Floor
600 East Boulevard Avenue, Department 405
Bismarck, ND 58505-0840

Subject: Semplastics Proposal Entitled “High-Value Products from Produced Water Mineralized via Reaction with Anthropogenic CO₂”

Dear Mr. Haase:

Semplastics is pleased to submit the subject proposal in partnership with the University of North Dakota (UND) Energy & Environmental Research Center (EERC). The application solicits the support of the Lignite Research Program for the execution of a bench scale project to test a technology that takes two waste streams, produced water and carbon dioxide, and makes a value-added product of carbonate ceramic composites for building products while improving the quality of the brine water such that it can be reused rather than disposed of.

The \$100 application fee for this proposal is provided. Semplastics is committed to completing the project as described in the proposal if the Commission makes the requested grant. If you have any questions, please contact me by phone at (407) 353-6885 or by e-mail at wgeaster@semplastics.com.

Sincerely,



William G. Easter
CEO, Semplastics EHC LLC

**High-Value Products from Produced Water Mineralization
via Reaction with Anthropogenic CO₂**

Proposal Submitted to the Lignite Research Council's
Lignite Research, Development, and Marketing Program

Principal Investigator: Walter J. Sherwood, Ph.D.

Date of Application: September 29, 2023

Amount of Request: \$100,000

Semplastics EHC LLC

269 Aulin Avenue, Suite 1003

Oviedo, FL 32765

Telephone: (407) 353-6885

Point of Contact: William G. Easter

Email: wgeaster@semplstics.com

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ABSTRACT

Objective: The objective of this project is to develop and demonstrate a cost-effective method to mineralize sodium and other Group 1 elements as well as Group 2 elements in produced water with high levels of total dissolved solids (TDS) while capturing and sequestering carbon dioxide (CO₂). The project will demonstrate a laboratory-scale process for the production of commercially useful products from sodium, lithium, and Group 2 (divalent elements such as calcium) carbonates formed by the mineralization of captured CO₂. These carbonates will be utilized to produce samples of building products such as panels, coated mixed carbonates (MxC) in polypropylene, and sodium bicarbonate or other commercially useful sodium compounds.

Expected Results: The key outcome from this study will be a process to combine two waste streams to produce high-value materials and products while permanently sequestering significant amounts of CO₂. This process uses no toxic inputs and produces no toxic waste streams, but rather results in water that can be utilized beneficially. This result will be accomplished by performing a proof of concept at bench scale through (1) design and construction of a system able to mineralize up to four kilograms of CO₂ per day, producing divalent carbonates such as calcium carbonate and softened brine which will be used to mineralize additional CO₂ to produce sodium and potentially lithium compounds; and (2) initial design of a larger scale mineralization system capable of mineralizing over ten kilograms of CO₂ per day, utilizing CO₂ from an actual combustion source.

Duration: 12 months (September 25, 2023 – September 24, 2024).

Total Project Cost: The proposed total cost is \$356,494, with Semplastics contributing \$256,494 as cash cost share and \$100,000 requested from the Lignite Research Program (LRP).

Participants: The project lead for the proposed project is Semplastics, with the project conducted in partnership with the North Dakota Industrial Commission (NDIC) through LRP, and the University of North Dakota (UND) Energy & Environmental Research Center (EERC).

PROJECT SUMMARY

Semplastics proposes to develop a cost-effective method to mineralize sodium and other Group 1 elements as well as Group 2 elements in high-TDS produced water to capture and sequester carbon dioxide. This result will be accomplished by designing and constructing a laboratory-scale process for production of commercially useful products from sodium, lithium, and Group 2 (divalent elements such as calcium) carbonates formed by the mineralization of captured CO₂. These carbonates will be utilized to produce samples of building products such as panels, coated mixed carbonates (MxC) in polypropylene, and sodium bicarbonate or other commercially useful sodium compounds. Additionally, with our project partner, the EERC, a scaled-up design for a larger pilot system will be produced based on information obtained from the bench-scale system and experimental results.

PROJECT DESCRIPTION

Objectives

The objective of the project is to develop and demonstrate a cost-effective method to mineralize sodium and other Group 1 elements as well as Group 2 elements in produced water with high levels of total dissolved solids (TDS) while capturing and sequestering carbon dioxide (CO₂). The project will demonstrate a laboratory-scale process for the production of commercially useful products from sodium, lithium, and Group 2 (divalent elements such as calcium) carbonates formed by the mineralization of captured CO₂. This system will be used to produce samples of building products such as panels, MxC in polypropylene, and sodium bicarbonate or other commercially useful sodium compounds. From the lessons learned in developing the bench scale system, the EERC will perform initial design of a larger-scale pilot scale system capable of using actual combustion exhaust as the CO₂ source.

Methodology

This project will be performed in seven separate tasks. The proposed study has a 14.5-month period of performance.

Task 1.0 – Design and Build Lab-Scale Mineralization System

The lab-scale system will be able to mineralize up to four (4) kilograms of CO₂ per day. It will be designed to produce divalent carbonates such as calcium carbonate and softened brine which will be used to mineralize additional CO₂ to produce sodium and potentially lithium compounds. Components will include a reaction vessel, pumps, piping, support structure, thermocouples, liquid and gas flow controllers, and a heating system.

Task 2.0 – Evaluate Process Parameters

The lab-scale system will be used to understand, explore, and optimize the process. Parameters to be tuned will include CO₂ input flow rate, divalent & monovalent content of produced water, pH of water, reaction temperature, and removal of iron. Outputs will be evaluated for Group 2 Divalent Metal Mineralization and for Group 1 Monovalent Metal Mineralization. The aim of this task will be to understand the process in order to provide inputs for the design and construction of a larger system.

Task 3.0 – Analyze Produced Water Input and Carbonate Outputs

Under this task, testing will be performed on water and resulting carbonates from two sources: Bakken and the Permian Basin. Input and output water will be tested for compositional analysis. Particle size distribution of both the mixed divalent and monovalent carbonates will be carried out to determine the best mix design for incorporation with resin systems.

Task 4.0 – Produce Test Panels and Carbonate Filled Plastics

For this task, composite plates will be produced that incorporate the carbonates produced with the lab-scale system. These materials will be mixed with Semplastics-proprietary resins using a proven process to produce sample materials that could be developed into replacements for conventional building materials. The aim of this task is to determine how the carbonates from various water sources affect the strength and porosity of the composites. Mixed carbonates will also be demonstrated as a filler in polypropylene to demonstrate other beneficial uses. New resin formulations will be developed as needed to improve material properties or to decrease overall cost of the materials.

Task 5.0 – Test Components and Materials

In this task, we will evaluate coatings of mixed carbonate utilizing scanning electron microscopy (SEM). We will also evaluate the microstructure of the plastic matrix after coated particles are used as filler in polypropylene and look at fractured surfaces to understand bonding characteristics. Flexural and tensile testing of injection molded tensile samples will be conducted. Sample plates will be tested for flexural strength, hardness, density, and porosity, and compared to commercial alternatives.

Task 6.0 – Initial Design of Pilot Plant Mineralization Plant

We will produce an initial design for a larger scale mineralization plant utilizing CO₂ from an actual combustion source based on lessons learned from the lab-scale system design and its performance. The larger unit will target the ability to mineralize over ten (10) kilograms of CO₂ per day.

Task 7.0 – Produce Final Report

This task will encompass all activities related to producing the final report. This will include gathering data from the experimental work, organizing the structure of the report, editing, formatting, and review before the final report is delivered.

Anticipated Results

The process, lab-scale system, and scale-up design produced under this project will support the mission of the Lignite Research Program (LRP) to concentrate on near-term, practical research and development projects that provide the opportunity to preserve and enhance development of our state's abundant lignite resources. Quarterly reports and a comprehensive final report will report the findings of this study.

Facilities, Resources, and Techniques

All work will be performed at facilities owned and operated by Semplastics and EERC using existing equipment. Semplastics will perform the bulk of the experimental work, with assistance from the EERC on analytical methods and system design. The EERC will perform the scale-up design for the larger pilot scale system.

Semplastics will utilize its extensive knowledge and experience gained from over a decade of plastics and composites development. X-MAT®, the Advanced Materials Division of Semplastics, launched in 2013. X-MAT has developed a revolutionary, high-performance material that combines some of the best properties of metals (electrical conductivity), engineering plastics (lightweight) and ceramics (high operating temperature). X-MAT has had several successful partnerships including work with NASA, Space Florida, and the Department of Energy's National Energy Technology Laboratory (NETL). X-MAT's game-changing material has been previously proven in several applications including fireproof roof tiles, lightweight space mirrors, battery electrodes, and 3D-printed ceramics. X-MAT technology can be custom-engineered to fit many specifications and has unlimited potential market applications.

Semplastics' work will be performed primarily at our advanced research laboratory located in the Central Florida Research Park adjacent to the University of Central Florida (UCF), which includes 1,500 square feet of research and engineering space. The research lab has the required equipment to conduct the Semplastics portion of the research, including ovens, furnaces, hydraulic presses, CNC router, and all related equipment and supplies. Analytical equipment for materials characterization and testing includes:

- Shimadzu IRTracer-100 Fourier transform infrared (FTIR) spectrometer
- Shimadzu DSC-60Plus differential scanning calorimeter (DSC)
- Shimadzu TGA-50 thermal gravimetric analyzer (TGA)
- Particulate Systems Particle Insight particle size and shape analyzer
- Atago NAR-1T Liquid refractometer
- Brookfield Ametek DVEELVTJ0 viscometer
- Test Resources 313 Series universal test machine (UTM)

Project administrative services will be provided by Semplastics. The project team is committed to providing all necessary personnel and resources to ensure the timely completion of all activities outlined in this proposal.

The EERC has over 254,000 square feet of laboratory and technology demonstration facilities. Their labs address a multitude of standard and nonstandard tests designed to exceed client needs. They

perform all scales of materials analysis and characterization, using state-of-the-art equipment and experienced staff to provide sample analysis, characterization, and research. Available equipment includes:

- Hitachi SU5000 field emission scanning electron microscope (FESEM)
- VG PQ ExCell ICP-MS quadrupole mass spectrometer with 27-MHz ICP RF generator
- Bruker D8 Advance X-ray diffractometer
- Rigaku ZSX Primus II Wavelength dispersive x-ray fluorescence spectrometer
- EERC-designed and built solvent absorber and stripping system that is used to capture the CO₂ from the flue gas generated by the EERC pilot-scale combustion test furnace

Semplastics and the EERC represent decades of experience in product development and process engineering and design. All project participants have committed the necessary resources to execute this project. These same industry experts have been a part of several novel composite production projects on similarly sized systems within the state of North Dakota.

Environmental and Economic Impacts While Project Is Underway

The proposed work is a bench-scale laboratory study and will not have any environmental impacts to the study area or to partner facilities. The proposed work will, however, change economic impacts through the introduction of a near-term value-added product from the capture and sequestration of anthropogenic CO₂. This process combines two waste streams to produce high-value materials and products while permanently sequestering significant amounts of CO₂. The process uses no toxic inputs and produces no toxic waste streams, but rather results in water that can be utilized beneficially rather than treated as an additional waste stream.

Ultimate Technological and Economic Impacts

Utilization of this technology has the potential to permanently capture thousands of tons of CO₂ per day to make materials useful in industrial applications and construction. This outcome aligns with progress toward Governor Burgum's goal of North Dakota carbon neutrality by 2030 as well as societal

objectives of carbon-negative building construction. The potential products to be made from the carbonates extracted from produced water, such as tiles and siding, will contain 32% by mass of captured CO₂. The process is source-agnostic and can utilize CO₂ from point sources or from direct air capture. If North Dakota is to maintain its current power industry and reach carbon neutrality, it will require an “all of the above” approach when it comes to carbon sequestration. The proposed technology will have a significant impact on carbon sequestration while producing valuable products from a second waste stream of produced water. Implementation of this process in the state at the industrial scale could create tens to potentially hundreds of new jobs to operate facilities that can be sited at produced water injection sites.

Why the Project Is Needed

While the proposed technology is not sequestering CO₂ at the same scale as carbon capture and sequestration (CCS) at large power plants, it can profitably use the “mined” minerals in produced water to make construction materials (e.g., roof tiles, siding) at scale. A 100,000 barrel per day treatment facility could capture more than 400 tons of CO₂ each day, which will certainly move the needle on greenhouse gas emissions. The technology also reduces the use of freshwater in oil and gas production in the state, because the softened brine at the end of the process is made much more useable for recycling into fracturing operations and for beneficial reuse in industrial applications.

STANDARDS OF SUCCESS

This project is a bench-scale project to move the technology from proof-of-concept to a higher technology readiness level (TRL) that will enable the process to be integrated into a more complex system defining all steps required to produce the end product as described previously. As such, the proposed work will move the technology from TRL 3 (experimental proof of concept) to TRL 4 (technology validated in laboratory as a system). This information will then be utilized to initiate the scale-up design for a pilot scale system to move up to TRL 6 (system model development demonstrated in a relevant environment at larger scale). The standard of success will be the laboratory integration of the individual

steps required to produce the final product and the development of the scaled-up system design to be executed in follow-on development work.

BACKGROUND

In proof-of-concept work, Semplastics has already constructed a four-liter reactor in which to add water, CO₂, and caustic solutions while monitoring the temperature of the reaction. This reactor has been utilized in early experiments to produce carbonates from produced water which were then filtered from the residual brine and mixed with a proprietary resin to produce a carbonate plastic composite sample (Figure 1). Additionally, Semplastics has produced many coal ceramic composites for making building components such as bricks, blocks, building panels that have outperformed their traditional market components. With assistance from the EERC, the carbon ceramic composite material production process has been scaled to pilot scale and the material produced has been used to make products to demonstrate the feasibility and performance characteristics of the coal ceramic composites. These experiences enable the Semplastics and EERC team to be successful in moving the proposed technology closer to commercial readiness.

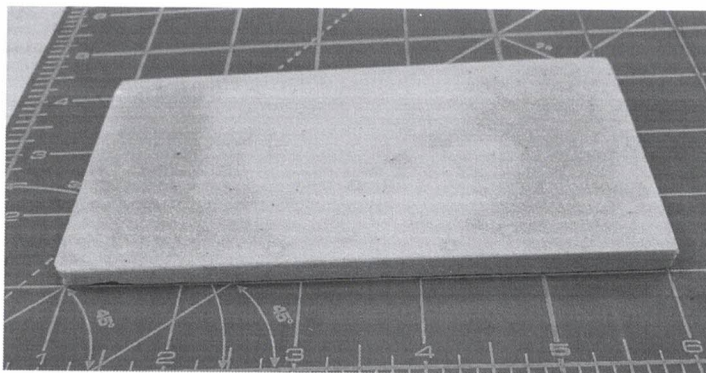


Figure 1. A 3" x 5" x 0.25" MxC-filled inorganic resin panel (~75% MxC by mass).

QUALIFICATIONS

Semplastics will serve as the lead organization for the proposed project. Dr. Walt Sherwood, Semplastics' Chief Scientist, will serve as the Principal Investigator. Dr. Sherwood has been responsible for the development of multiple proprietary resins including the resin systems used to make coal ceramic composites to develop stronger and lighter building products such as bricks and blocks. Dr. Sherwood will ensure that the project is carried out within budget, schedule, and scope. Dr. Sherwood will also be responsible for communication with project partners and EERC project personnel.

Dr. Bruce Folkedahl will be the lead at the EERC to assist in performing the initial scale-up design for the next phase of the technology development. Dr. Folkedahl has worked with Semplastics on many previous coal ceramic composite development projects and has an intimate understanding of the tools and techniques required to pilot-scale such technologies.

VALUE TO NORTH DAKOTA

The proposed project's primary value to North Dakota will be in maintaining and adding new jobs to the state and local economies in areas where current and new regulations threaten to significantly reduce activity in coal utilization, one of the state's most vital resources. The power industry and a newly created carbon capture and sequestration (CCS) industry will preserve and gain new jobs as a result of this project. If the proposed work moves into eventual commercialization, the technology will assist in providing new revenue sources not only for the operating power plants that capture CO₂ but also other sources of CO₂ capture systems such as direct air capture systems, ethanol plants in the state that capture CO₂, and other systems of CO₂ capture. Additionally, the process will aid in reducing the disposal of produced water in oil and gas production and potentially make disposal unnecessary by turning the brine into useful products while improving the water quality such that it can be used in industrial processes. One such use would be to reuse the water in the fracturing process, reducing the need for fresh water and reducing costs.

MANAGEMENT AND TIMETABLE

Semplastics is the lead organization for this project and will oversee all tasks and management activities associated with this project. Semplastics will schedule regular internal and external meetings with project staff and advisors to ensure that the project is conducted using acceptable scientific methodologies and practices in accordance with the project plan (budget, schedule, deliverables, and milestones) and is meeting quality objectives. Semplastics will keep all partners informed of project progress and coordinate activities as necessary for the execution of a successful project and will be responsible for timely submission of all project deliverables and transfer of data and products to the team.

Once the project is initiated, the project team will engage in weekly conference calls to review project status and future directions. Quarterly reports and a final report will be prepared and submitted to project sponsors for review.

The primary deliverable for the project will be a final report detailing all project activities and the successful completion of a laboratory bench scale system illustrating process improvements. The final report will also contain the initial scale-up design of the process to bring it to pilot-scale level in follow-on work.

Milestones proposed for this project are associated with the completion of each task listed in the Methodology section above. The project period of performance is 12 months (September 25, 2023 – September 24, 2024). The proposed overall schedule for this effort is depicted in the table below.

Task	Month											
	1	2	3	4	5	6	7	8	9	10	11	12
Task 1: Design and build lab-scale system	█	█										
Task 2: Evaluate process parameters		█	█	█	█							
Task 3: Analyze inputs and outputs		█	█	█	█	█	█	█	█			
Task 4: Produce test panels and materials			█	█	█	█	█					
Task 5: Test produced components				█	█	█	█	█	█			
Task 6: Design and build larger plant			█	█	█	█	█	█	█	█	█	
Task 7: Produce final report												█

BUDGET AND MATCHING FUNDS

The proposed project budget (Table 1) is \$356,494, with \$100,000 requested from NDIC and matching funds of \$256,494 from Semplastics. The budget includes subcontracts for B2K4 Consulting and the EERC, as well as a consultant for Technical and Business Assistance (TABAs) services. The requested funding is needed to enable the EERC to support the development of this technology while also supplying North Dakota produced water for use in process development and demonstration. Reduced funding from NDIC will result in reduced scope for process scale-up activities and significantly delay the prospect of moving this technology to market.

Table 1. Project budget.

Project Associated Expense	NDIC Share (Cash)	Semplastics Share (Cash)	Total Project
Labor	\$0	\$39,120	\$39,120
Travel	\$0	\$3,525	\$3,525
Materials	\$0	\$10,645	\$10,645
Subcontractor – EERC	\$100,000	\$50,000	\$150,000
Subcontractor – B2K4 Consulting	\$0	\$25,060	\$25,060
Testing	\$0	2,500	\$2,500
Consultant – TABA Services	\$0	\$6,479	\$6,479
Fringe	\$0	\$10,171	\$10,171
Indirect	\$0	\$92,214	\$92,214
Fee	\$0	\$16,780	\$16,780
Total Cash Requested	\$100,000	\$256,494	\$356,494

TAX LIABILITY

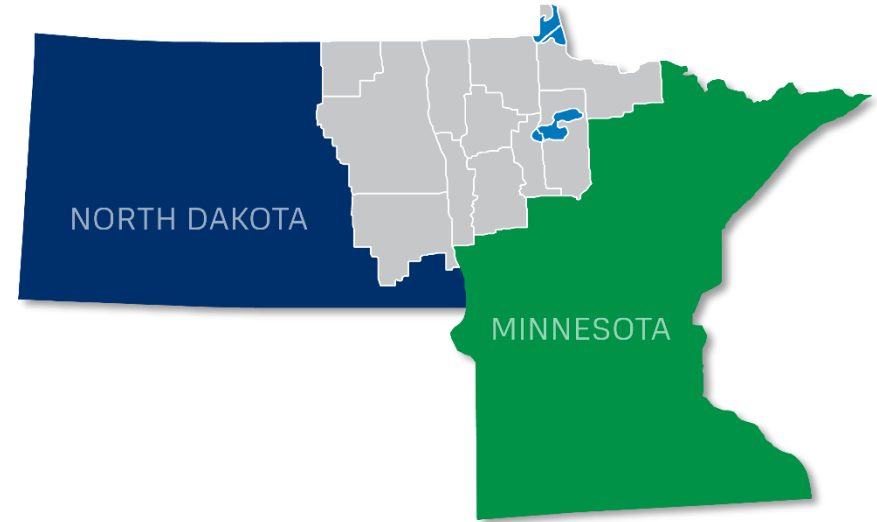
Semplastics does not have an outstanding tax liability owed to the State of North Dakota or any of its political subdivisions.

CONFIDENTIAL INFORMATION

No confidential information is contained in this proposal.

Project Tundra

*Post Combustion Carbon Capture
on the Milton R. Young Station
in North Dakota*



NDIC
November 28, 2023
Tundra Update



A Touchstone Energy® Cooperative 

Three Project Platforms



Project Tundra

Storage

Capture

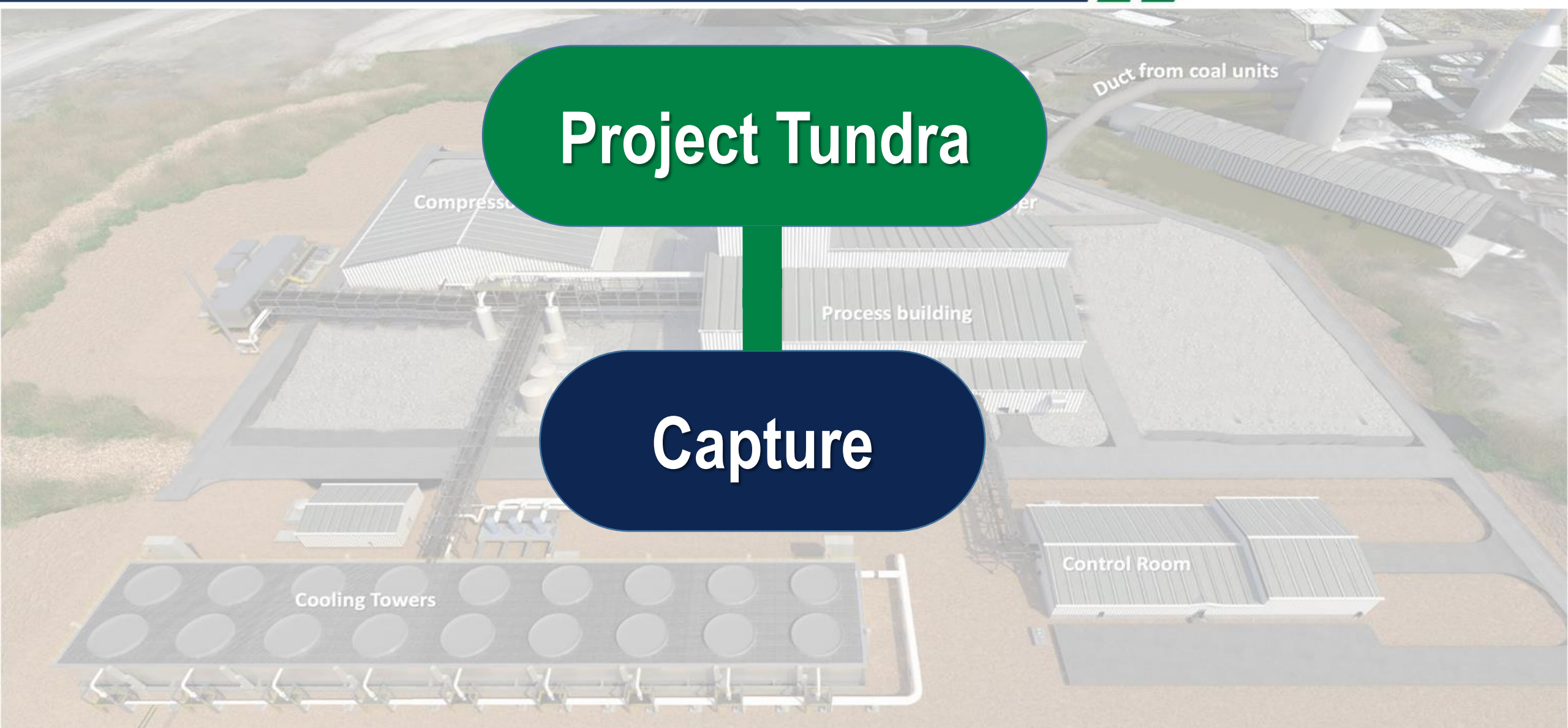
Finance

Three Project Platforms



Project Tundra

Capture



MHIA/Kiewit FEED Study

- Working on the FEED study with MHIA and Kiewit
 - Began February 1, 2023
 - To be complete April 1, 2024
 - Self-Funded (no federal/state assistance)

- Not a standard FEED study
 - We are now in the design freeze/procurement stage with the Consortium
 - Ends with “lump-sum turn-key” price (not an estimated cost)
 - EPC contract being negotiated in parallel with the FEED work

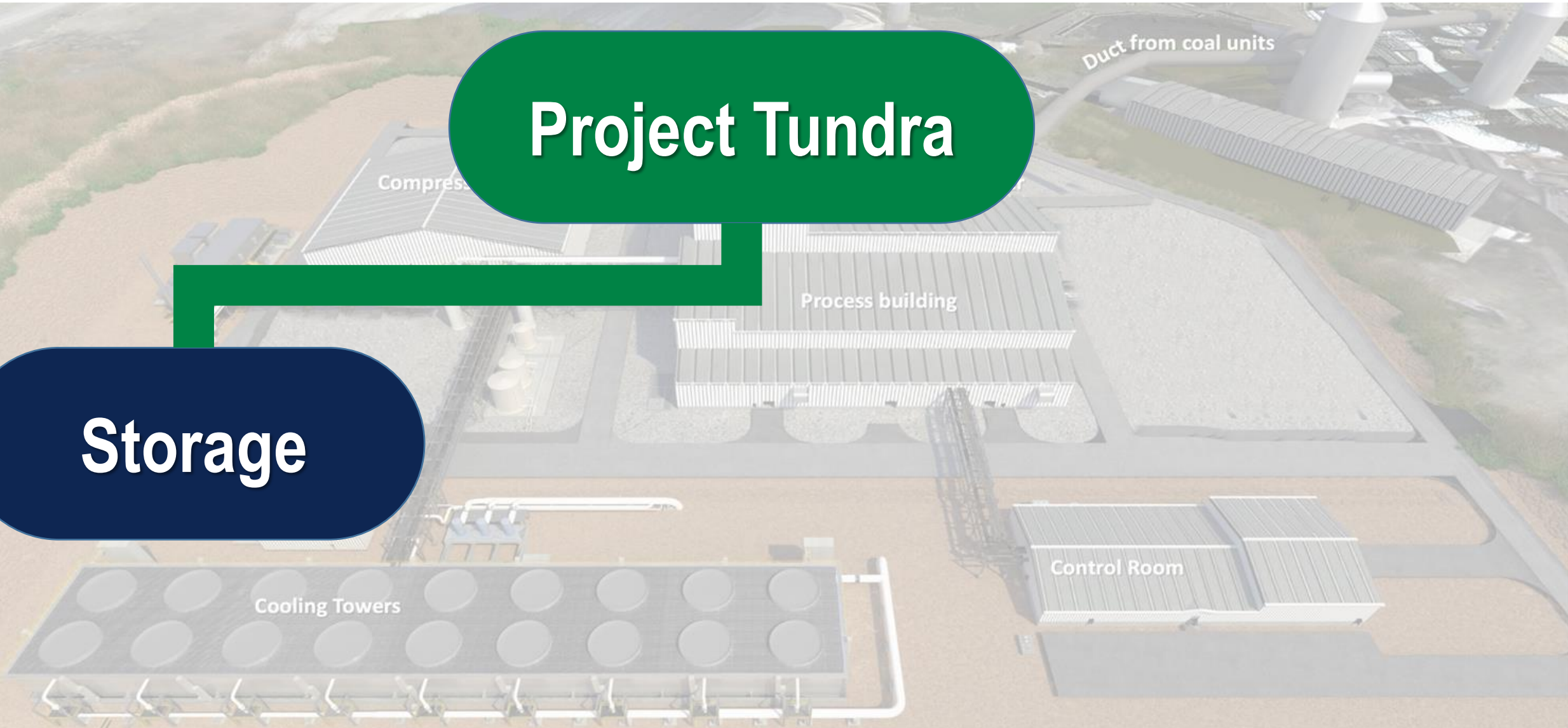


Three Project Platforms



Project Tundra

Storage



Carbon Storage



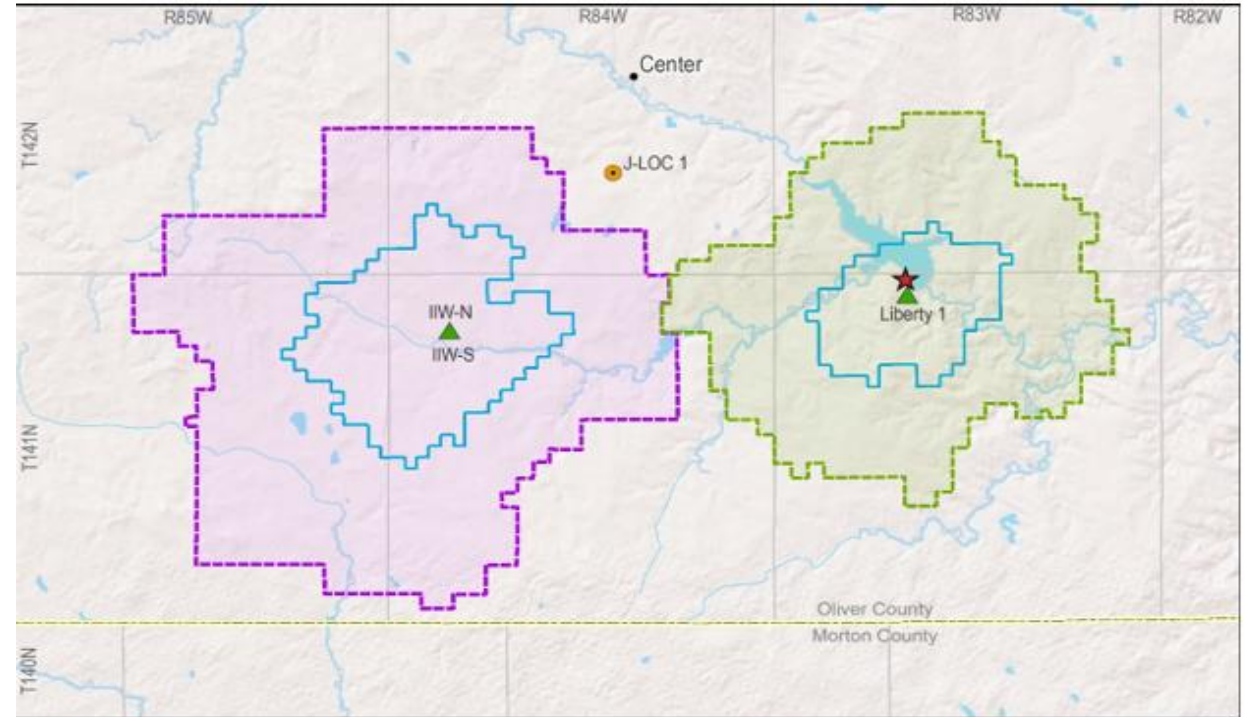
- Largest fully-permitted CO₂ storage facility in the United States
- Second storage facility permit received in October 2023
- Strong local support from landowners, county and community



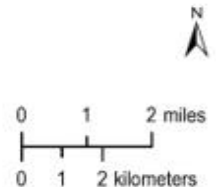
Storage Facilities by the Numbers



- **17,000** acres of seismic survey
- **20,000+** feet drilled
 - 2 stratigraphic test wells
- **2,500+** feet of core rock recovered!
- **East Site- 97% Landowner consent**
 - Total about 19,000 acres
 - Broom Creek and Deadwood
- **West Site- 80.33% Landowner consent**
 - Total about 29,000 acres
 - Broom Creek
- A combined capacity to store **222 million metric tons** of CO₂ over 20 years.



- ★ Milton R. Young Station
- ▲ Planned Injection Wells
- Stratigraphic and Planned Reservoir-Monitoring Well
- 5-Year CO₂ Extent (2029)
- ▭ Storage Facility Area
- ▭ Permitted Storage Facility Area

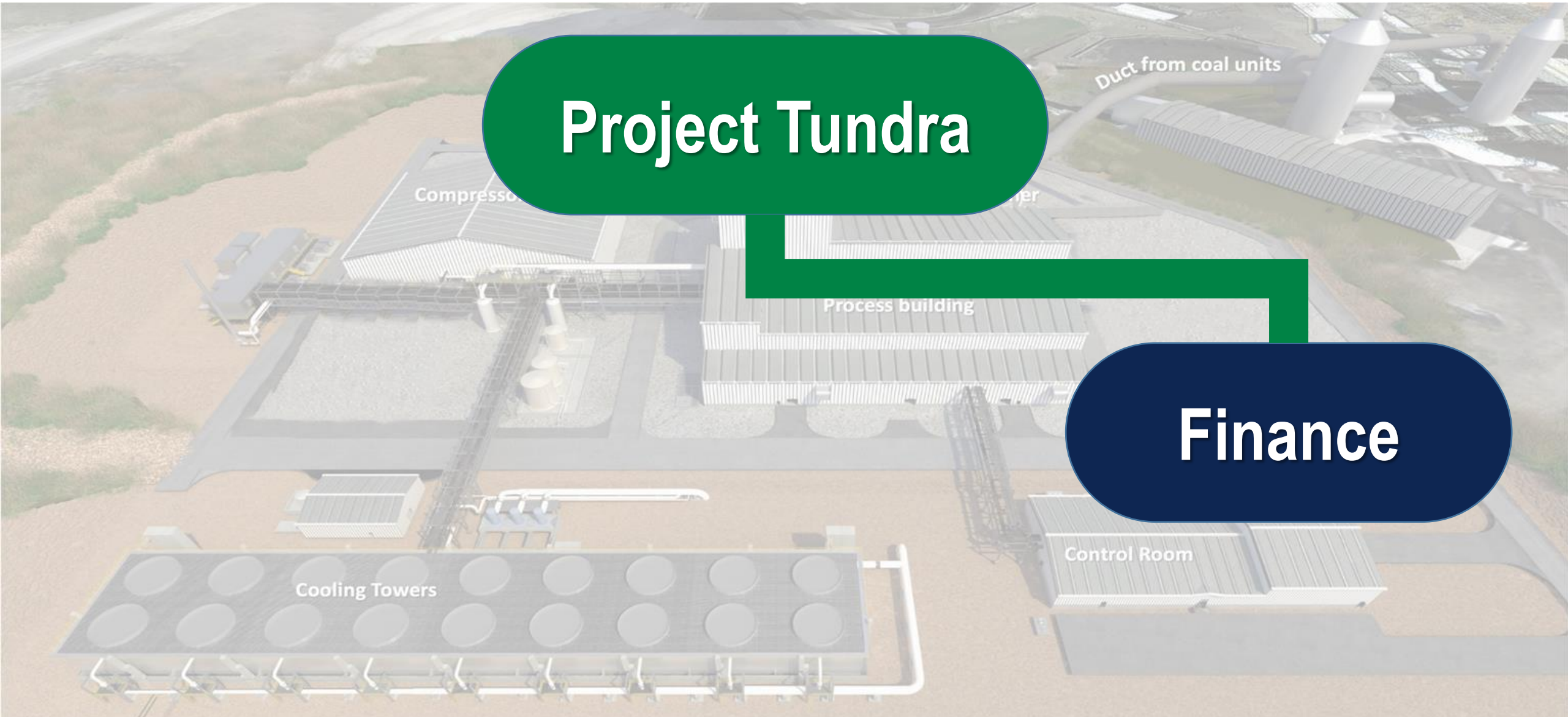


Three Project Platforms



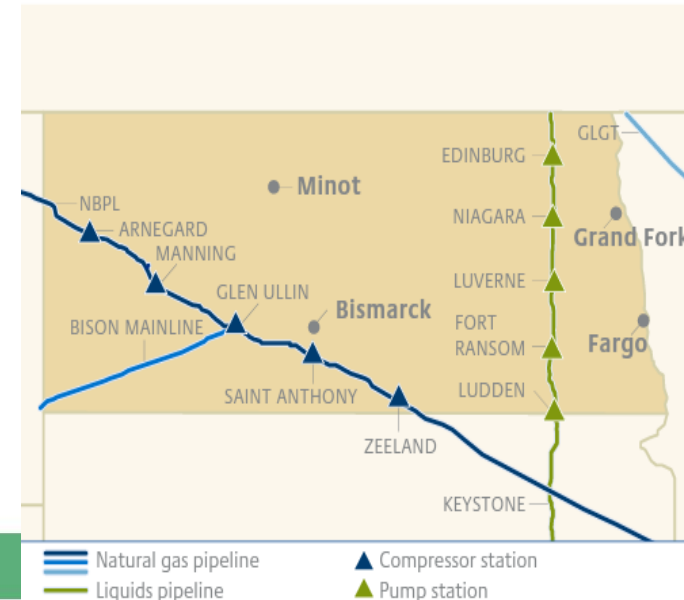
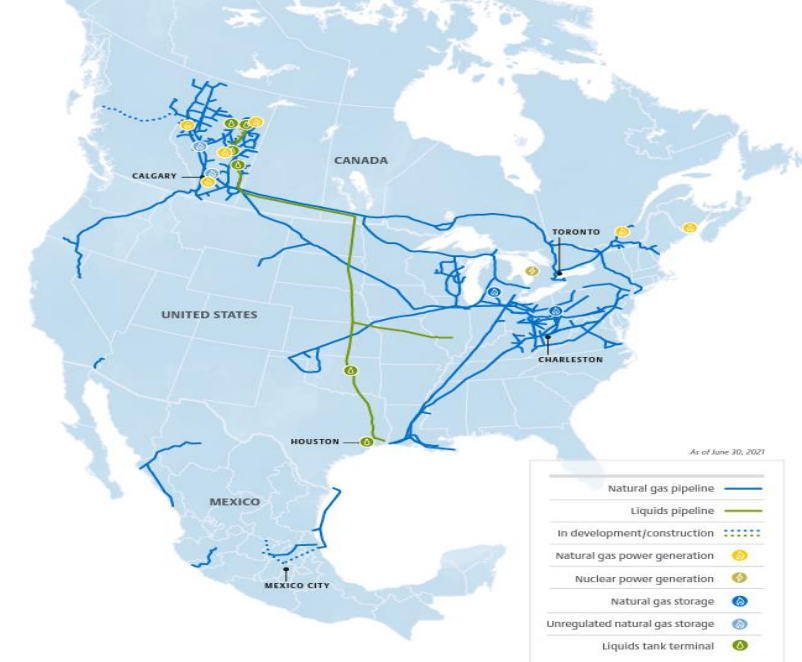
Project Tundra

Finance



TC Energy Corporation

- Project Commercialization Lead – Strategic Partner
- Market cap = ~\$52 billion
- Global HQ in Calgary, AB (US HQ in Houston, TX)
- Total Assets = ~\$114 Billion
- Rated Baa1 and BBB+ by Moody's Investor Services, Inc. and Standard & Poor's Rating Services, respectively
- ~57,900 miles of Natural Gas (NG) pipelines
 - Delivers 25% of N. America's NG demand
- ~3,000 miles of liquids pipelines
- 7 power generation facilities (~4,200 MW)
- TC Energy Hub-Scale CCS Projects
- Initiated the "Alberta Carbon Grid", TCE's goal to transport and store up to 20 million tons of CO2 per year through hubs across Alberta, serving diverse sectors and customers



Our presence in North Dakota:

Natural gas pipeline infrastructure

Bison, NBPL

Length of pipeline (mi)	410.88
Compressor stations	5

Liquids pipeline infrastructure

Keystone

Length of pipeline (mi)	218.12
Pump stations	5

Economic impact

Property taxes accrued	\$6.58 million
Community investment	\$182,829
Number of employees	26
Salaries	\$2.58 million

State and Federal Funding Opportunities



- 2022 - Inflation Reduction Act (IRA)
 - Increased 45Q tax credit from \$50/ton to \$85/ton for CO2 storage
 - Necessary, due to supply chain and inflationary challenges, and associated price contingency

- 2021 - Bipartisan Infrastructure Law (BIL)
 - ❑ DOE Demonstration Projects Program
 - ❑ Recognizes projects require additional risk mitigation
 - ❑ Funding Opportunity Announcement
 - ❖ February 2023
 - ❖ DOE grants of up to \$350M each for two coal-based CCS projects
 - ❖ Expect selection in 2023

- Clean Sustainable Energy Authority (CSEA) Loan (State of North Dakota)
 - ❑ \$100M in 2021-2023 Biennium
 - ❑ \$150M in 2023-2025 Biennium



Carbon Capture in ND



- Ideal geology
- State leadership, policy, legal framework and support of CCUS
 - Planning for carbon capture/EOR for 15 years
 - ND has Class VI storage permitting primacy (MRV still through EPA)
 - LRC/NDIC Integral to advanced position achieved
- Supportive Local Community
- Expanded 45Q makes geologic storage without oil production feasible
 - No exposure to crude oil production and price risk
 - Unlock future EOR potential
- Supportive Board of Directors and Leadership

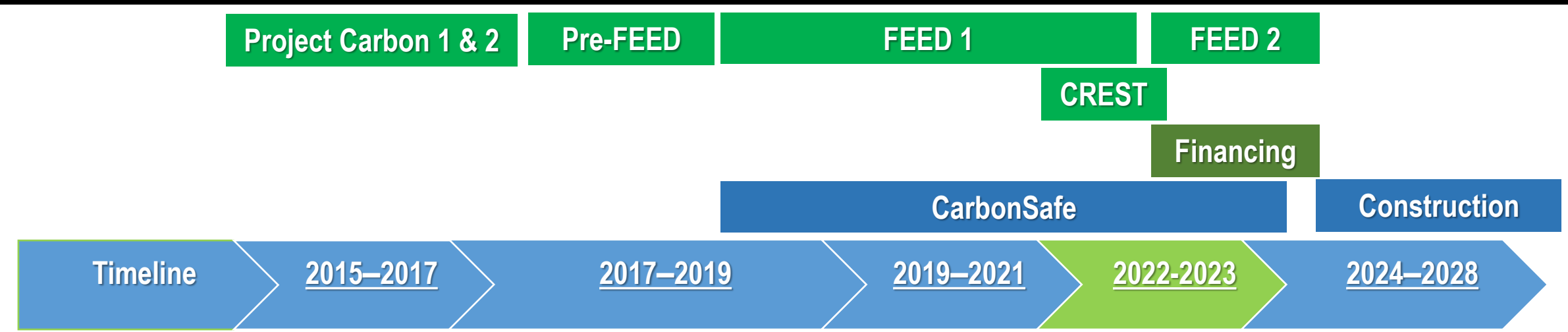
POWERING
THE JOURNEY AHEAD 

What's Next?

- Complete the FEED Study
- Complete the EPC Contract
- Complete West Site MRV
- Achieve the DOE grant
- Assemble the information and strategy to support a final investment decision by end of Q2 24

Work closely with TC Energy and any other project partners to assess and address risk, such that a final investment decision can be made.

Project Tundra Schedule



Project Tundra Schedule – July 2023

July	August/September	October/November	December	April 1, 2024
<ul style="list-style-type: none"> Finalize West Storage Permit CSEA Funding 	<ul style="list-style-type: none"> Air Permit Comment Period and Hearing 	<ul style="list-style-type: none"> Landowner Meeting Secure DOE Funding NDIC Orders on West Permit File West MRV 	<ul style="list-style-type: none"> Negotiations for EPC Contract 	<ul style="list-style-type: none"> MHIA/TIC FEED and LSTK price finalized Final Investment Decision Period starts

Minutes of a Meeting of the Industrial Commission of North Dakota

Held on October 31, 2023 beginning at 8:00 a.m.

Governor's Conference Room – State Capitol

Present: Governor Doug Burgum, Chairman
Attorney General Drew H. Wrigley
Agriculture Commissioner Doug Goehring

Also Present: This meeting was open through Microsoft Teams so not all attendees are known.
Agency representatives joined various portions of the meeting.

Governor Burgum called the meeting of the Industrial Commission to order at approximately 8:03 a.m.

OFFICE OF THE INDUSTRIAL COMMISSION

Ms. Karen Tyler presented for consideration of approval the October 4, 2023 Industrial Commission meeting minutes.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve the October 4, 2023 Industrial Commission meeting minutes.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Reice Haase presented for consideration of approval a special grant round for legislative-directed Carbon Capture Utilization Education and Marketing project.

The memo reads as follows:

“Section 10 of HB 1014 passed by the 68th Legislative Assembly included an appropriation of \$300,000 “to contract for carbon capture and utilization education and marketing”. The lignite research fund, oil and gas research fund, and renewable energy development fund are directed to each contribute \$100,000 to the effort. The Commission is directed to develop the contract in consultation with each of the fund’s respective research councils.

The next meetings of the respective councils are currently scheduled as follows:

- Renewable Energy Council: November 6th, 2023
- Lignite Research Council: November 9th, 2023
- Oil and Gas Research Council: December 2023

Each research program has a similar process for accepting grant applications, including a similar application, technical review, Council recommendation, and contracting with the Commission. A combined special grant round would facilitate a thorough review of applications and would allow the Commission to efficiently consult with all three councils prior to considering a contract that would meet the legislative intent of HB 1014.

Therefore, I recommend that the Commission authorizes a special grant round of the combined Renewable Energy, Lignite Research and Oil and Gas Research Councils for the purpose of soliciting proposals to conduct carbon capture and utilization education and marketing, during which the Commission would consider for approval only such applications that receive a positive recommendation from all three research councils.”

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission authorizes a special grant round of the combined Renewable Energy, Lignite Research and Oil and Gas Research Councils for the purpose of soliciting proposals to conduct carbon capture and utilization education and marketing, during which the Commission would consider for approval only such applications that receive a positive recommendation from all three research councils.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Haase gave a report on the 2023 Special Legislative Session.

The memo reads as follows:

“During the 2023 Special Legislative Session, the Office of the Industrial Commission monitored bills related to the Commission’s work. Three bills related to the Industrial Commission were passed:

- SB 2393 included a cash-management study which involves the Bank of North Dakota
 - Passed Senate 46-1, Passed House 82-7
- SB 2397 included a \$100 million line-of-credit from the Bank of North Dakota for the water infrastructure revolving loan fund
 - Passed Senate 47-0, Passed House 87-2
- HB 1546 directed the Clean Sustainable Energy Authority to develop a fertilizer incentive program with a \$125 million forgivable loan for a fertilizer facility which uses hydrogen produced by the electrolysis of water
 - Passed House 60-30, Passed Senate 40-7”

BANK OF NORTH DAKOTA

Ms. Lindsay Wagner and Mr. Craig Hanson gave a demonstration of the new DOSS (Dynamic One Stop Shop) system that has been implemented at the Bank of North Dakota. This system allows for a more efficient process of onboarding loans from other financial institutions to the Bank of North Dakota.

Mr. Todd Steinwand presented for consideration of approval the 2024 BND Holiday Schedule and change to approval process.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve the 2024 BND Holiday Schedule and change to approval process.

The 2024 holidays will be observed by the Bank of North Dakota and the Federal Reserve Bank of Minneapolis and its Helena Branch on the following dates:

New Year's Day	Monday, January 1
Martin Luther King Jr. Day	Monday, January 15
Presidents Day	Monday, February 19
Memorial Day	Monday, May 27
Independence Day	Thursday, July 4
Labor Day	Monday, September 2
Columbus Day	Monday, October 14***
Veterans Day	Monday, November 11
Thanksgiving Day	Thursday, November 28
Christmas Day	Wednesday, December 25

***** All Employee Event for BND. Employees can choose to take another day off.**

Note: According to NDCC 1-03-01 state offices close at noon on Christmas Eve Day when it falls on a Monday-Thursday.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Steinwand and Mr. Rob Pfennig gave a presentation of the Third Quarter 2023 Performance Highlights.

Balance Sheet Highlights:

Third Quarter 2023 assets were \$9.9 billion. Total allowance for credit loss and off-balance sheet reserve is \$112.3 million for the quarter. The loan portfolio grew to \$5.6 billion in the third quarter, but volumes have slowed from 2022 growth as the portfolio is down from budget. Commercial loans are down by \$67.4 million. Strong activity in the commercial participation and flex pace programs were offset by the pay down of state institution loans and timing of match program loans. Livestock Rebuilder program exceeded budget expectations helping drive growth in the Ag Portfolio. Residential loan runoff is slowing due to the rise in interest rates and overall volume of student loan is down. Changes in the Bank's Equity position are a result of net income, changes in unrealized gain/loss positions, allocations of capital to various legislative programs, and distributions to the State's General Fund. For the nine months ended September, the Bank has transferred \$140 million to the General Fund, \$24.5 million to buydown programs and \$41.4 million to other state programs. During 2022, the Bank transferred \$28.8 million to buydown programs and \$1.57 million to other state programs.

Income Statement Highlights:

Net Income as of September 30 was \$143.7 million. Interest Income exceeded budget by \$7.5 million primarily due to higher rates at the Federal Reserve, larger than anticipated FHLB dividends, and higher rates and volumes in the commercial participation program. A combination of increased rates, short-term borrowing, and deposit balances contributed to the higher interest expense. The Bank implemented the CECL Accounting Standard in 2023. The primary driver to the variance in budget to actual with provision for credit losses was the level of commercial loan growth experienced year-to-date. The Bank continues to evaluate its loan portfolio and adequacy of the allowance for credit loss. Non-Interest Expense is \$3.4 million under budget due largely to the timing of IT projects and hiring of approved FTE's.

The full performance highlights report can be found on the website.

Mr. Steinwand presented the following non-confidential meeting minutes for the Commission's review:

- i. Finance and Credit Committee August 16th, 2023 Meeting Minutes
- ii. Leadership Development and Compensation Committee August 17th, 2023 Meeting Minutes
- iii. BND Advisory Board August 17th, 2023 Meeting Minutes

It was moved by Attorney General Wrigley and seconded by Commissioner Goehring that under the authority of North Dakota Century Code Sections 6-09-35, 44-04-18.4, 44-04-19.1, 44-04-19.2, the Industrial Commission enter into executive session for the purpose of Bank North Dakota confidential business.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum stated that the Commission is meeting in executive session regarding Bank of North Dakota confidential business to consider those items listed on the agenda under Bank of North Dakota Executive Session. Only Commission members, their staff, Commission staff, and Bank of North Dakota staff will participate in the executive session.

Any formal action taken by the Commission will occur after it reconvenes in open session.

Governor Burgum reminded the Commission members and those present in the executive sessions that the discussions must be limited to the announced purposes which is anticipated to last approximately 30 minutes.

The executive session began at approximately 9:05 a.m.

The Meeting Closed to the Public for Executive Session Pursuant to NDCC 6-09-35, 44-04-18.4, 44-04-19.1, and 44-04-19.2

BANK OF NORTH DAKOTA EXECUTIVE SESSION

Industrial Commission Members Present

Governor Doug Burgum

Attorney General Drew H. Wrigley

Agriculture Commissioner Doug Goehring

BND Members Present

Todd Steinwand, BND
Kelvin Hullet, BND
Kirby Evanger, BND
Rob Pfennig, BND
Craig Hanson, BND
Alison Anderson, BND
Lindsay Wagner, BND

Others in Attendance

Ryan Norrell	Governor's Office
John Reiten	Governor's Office
Zach Greenburg	Governor's Office
Dutch Bialke	Ag Commissioner's Office
Karen Tyler	Industrial Commission Office
Reice Haase	Industrial Commission Office
Brenna Jessen	Industrial Commission Office

The executive session ended at 9:28 a.m. and the Commission reconvened in open session at 9:33 a.m.

During the Bank of North Dakota executive session, the Commission discussed those Bank of North Dakota confidential items listed on the agenda. No formal action was taken in executive session.

NORTH DAKOTA OUTDOOR HERITAGE FUND

Mr. Haase gave a presentation of the Outdoor Heritage Fund Project Management and Financial Report. As of October 26, 2023 the fund has a cash balance of \$42,478,364.81- \$39,367,281.39 is already committed, and \$3,111,083.42 is uncommitted. There are currently 88 active projects, \$81.6 million has been granted over the life of the program, and the project value of the fund is \$210.7 million. The funding by directive currently sits as follows: Directive A – 10% Directive B – 55% Directive C – 24% Directive D – 11%. The Industrial Commission has a goal of getting Directive D to a minimum of 15% of overall funding.

Mr. Boy Kuylen presented for consideration of approval the following Outdoor Heritage Fund grant round 23 applications:

- i. **23-1 (C) Audubon Great Plains, North Dakota Prairie Management Toolbox**, OHF funding – \$747,400, Total Project Cost – \$1,206,512. Project Summary: Provide financial assistance to private landowners in eastern ND and collaborate to implement regenerative grassland management practices including invasive woody vegetation removal on 600 acres and grazing infrastructure on 4,400 acres.
- ii. **23-2 (A) Mayville Dam #2 Reconstruction & Recreation Project, City of Mayville**, OHF funding – \$396,595, Total Project Cost – \$3,050,000. Project Summary: Remove the failed low head dam, reestablish the eroded riverbank, and construct

- a new dam in the form of rock riffle structures to facilitate fish passage, enable more natural sediment transport, and reduce sediment buildup.
- iii. **23-3 (D) Napoleon Recreation Trail, City of Napoleon**, OHF funding – \$750,000, Total Project Cost – \$1,400,000. Project Summary: Develop a recreation trail to connect facilities and provide a safe route. The trail parallels a creek and wildlife education plaques will be displayed along the trail.
 - iv. **23-5 (C) Lost Lake Dam Fish, McLean County Water Resource District**, OHF funding – \$66,736, Total Project Cost – \$88,981. Project Summary: Removing four barriers to fish migration in the lower portion of Painted Woods Creek with a 305-mile watershed.
 - v. **23-6 (A) Painted Woods Lake Flood Protection & Recreation Project, McLean County Water Resource District**, OHF funding – \$50,250, Total Project Cost – \$4,900,000. Project Summary: Construct a parking lot and kayak/canoe launch, build a new dam, and construct two box culverts to facilitate walk-in access across the creek channel and a gravel access path that leads to the dam within the Painted Woods Lake Wildlife Development Area (WDA).
 - vi. **23-7 (C) Wildlife and Livestock Dams – Wetlands Creation, Restoration, and Enhancement II, North Dakota Natural Resources Trust**, OHF funding – \$267,750, Total Project Cost – \$520,500. Project Summary: Assist landowners with approximately 20 wetland dam creations, dam repairs, and drain ditch plugs throughout the state impacting 112 surface acres of wetland habitat.
 - vii. **23-8 (A) MonDak Pheasants Forever 619 NWND 2024-2026 Habitat Project, Pheasants Forever, Inc.**, OHF funding – \$250,000, Total Project Cost – \$400,000. Project Summary: Incentivize 2,500 acres of new grass plantings and an additional 2,500 acres of new CRP enrollments with hunting access to increase new wildlife habitat development and hunting access in Williams and Divide counties.
 - viii. **23-10 (D) TMBCI Fishing/Boat Access Project, Turtle Mountain Band of Chippewa**, OHF funding – \$109,800, Total Project Cost – \$146,400. Project Summary: Purchase seven handicapped accessible fishing/boat access docks to be installed at five tribal lakes for the purpose of expanding recreational opportunities as well as providing lake access for water quality testing.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accepts the recommendation of the Outdoor Heritage Fund Advisory Board and approves the following projects:

- **23-1 (C) Audubon Great Plains: North Dakota Prairie Management Toolbox, \$747,400**
- **23-2 (A) City of Mayville: Mayville Dam #2 Reconstruction & Recreation Project, \$396,595.48**
- **23-3 (D) City of Napoleon: Napoleon Recreation Trail, \$750,000, contingent upon the exclusion of the portion of the trail connection to the nursing home**
- **23-5 (C) McLean County Water Resource District: Lost Lake Dam Fish Passage, \$66,735.53**
- **23-6 (A) McLean County Water Resource District: Painted Woods Lake Flood Protection & Recreation Project, \$50,250, only funding the kayak launch, parking lot, and boat ramp dirt work**

- **23-7 (C) North Dakota Natural Resources Trust: Wildlife and Livestock Dams – Wetlands Creation, Restoration, and Enhancement II, \$267,750**
- **23-8 (A) Pheasants Forever, Inc.: MonDak Pheasants Forever 619 NWND 2024-2026 Habitat Project, \$250,000**
- **23-10 (D) Turtle Mountain Band of Chippewa: TMBCI Fishing/Boat Access Project, \$109,800**

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Kuylen presented for consideration of approval the following Contract Amendment Request:

- Contract 017-172 ND Game and Fish Department: Red River Basin Wildlife and Water Quality Enhancement Pilot Program. The Request is for an amendment to decrease landowner cost-share from 50% to 40% and allow longer agreements of up to 10 years.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accepts the recommendation of the Outdoor Heritage Fund Advisory Board and approves an amendment to Contract 017-172 to increase the length of landowner agreements from 5 to 10 years, to reduce the landowner management cost-share from 50% to 40%, and to increase the project sponsor’s management cost-share from 50% to 60%.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Kuylen presented for consideration of approval an Outdoor Heritage Fund Advisory Board recommended policy change. This change would allow the Board to increase allowable labor costs for in-kind match on a yearly basis based on average hourly wage of North Dakota.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accepts the recommendation of the Outdoor Heritage Fund Advisory Board and approves an amendment to the Outdoor Heritage Fund cost-share policy for in-kind services as follows:

Labor Costs: ~~\$15.00/hour~~ Average of the average hourly wage of North Dakota as shown by the US Bureau of Labor Statistics and the Independent Sector Value of Volunteer Time Report.

2023 Value: \$28.76

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

NORTH DAKOTA MILL AND ELEVATOR

Ms. Robyn Hoffmann from the ND State Auditor’s Office gave a presentation of the Mill’s FY 2023 Audit. They audited the financial statements of the business-type activities of the North Dakota Mill and Elevator Association, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the North Dakota Mill and Elevator Association’s basic financial statements. In their opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities, and the respective

changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mr. Vance Taylor and Ms. Cathy Dub gave a presentation of FY 2023 Q1 Performance Results. The Mill experiences a profit of \$5,546,849 in the first quarter 2023 compared to a profit of \$2,330,195 profit in the first quarter 2022. Gross margins as a percent of gross sales for the quarter was 14.4% compared to 9.9% last year. Sales for the first quarter were \$127,888,159 compared to \$136,953,660 last year, and Operating Costs for the first quarter were \$11,641,871 compared to \$10,347,781 last year.

DEPARTMENT OF MINERAL RESOURCES

Dr. Lynn Helms presented for consideration of approval the following cases:

- i. **Order 32501 for Case 29896** regarding an application of Burlington Resources Oil & Gas Co. LP for an overlapping 2,560-acre spacing unit in Sections 23, 24, 25 and 26, T 153N, R 96W, McKenzie County, ND

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves Order 32501 issued in Case 29896 approving an application of Burlington Resources Oil & Gas Co. LP for an order amending the applicable orders for the Keene Bakken/Three Forks Pool to establish an overlapping 2,560-acre spacing unit described as Sections 23, 24, 25 and 26, T.153N., R96W., McKenzie County, ND, and authorizing one horizontal well to be drilled on such unit, and/or such further relief.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

- ii. **Order 32873 for Case 30263** regarding an application of Cobra Oil and Gas Corp. to remove 31 Operating, LLC as the operator of underground gathering pipeline system and the Evanson #2 SWD well located in Sections 30 and 31, T 162N, R 81W, Bottineau County, ND

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves Order 32873 issued in Case 30263 approving an application of Cobra Oil & Gas Corp. for an order removing 31 Operating, LLC as operator of certain underground gathering pipeline systems and a salt water disposal well so that Cobra Oil & Gas Corp. is the operator of both the pipeline located in the NESE and SESW of Section 30, T.162N., R.81W., Bottineau County, ND, and of the Evanson #2 SWD well, located in the NENW of Section 31, T.162N., R.81W., Bottineau County, ND, and/or such further relief.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

- iii. **Case 30329** regarding a motion to supplement Department of Mineral Resources draft administrative rules with amendments to NDAC 43-02-03-19.3 (administrative approval of open top tanks for hydraulic fracturing), NDAC 43-02-08 (stripper well and stripper well property determination), NDAC 43-02-10 (certification of secondary and tertiary project rules) and adding a new section (NDAC 43-02-15) related to certification of restimulation wells.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves an amendment to Case 30329 to authorize the Department of Mineral Resources to proceed with the administrative hearing process and publish for hearing and comment draft rule amendments to North Dakota Administrative Code Chapter 43-02-03-19.3 related to administrative approval of large open top tanks for produced water for hydraulic fracturing, Chapter 43-02-08 related to stripper well and stripper well property determination and Chapter 43-02-10 to incorporate statute changes into certification of secondary and tertiary projects rules, as well as the addition of a new Chapter 43-02-15 related to the certification of restimulation wells.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Mark Bohrer gave a presentation of the Oil and Gas Division Quarterly Report. In Q1 2023 there were 231 permit applications received. The rig count was 46 and the amount of producing wells was at 17,510. The production was at about 1,056,285 Barrels of Oil per day and the North Dakota average \$/barrel was at \$71.49.

The full report is available on the website.

Dr. Helms gave an update on federal regulatory matters:

- i. BLM Resource Management Plan – a request for extension was filed.

Dr. Helms gave an update on Oil & Gas related matters reasonably expected to require comments:

- i. BLM Venting and Flaring
- ii. Presidential Executive Order 14008 related to climate change – Governor Burgum noted that there is a difference between conservation and preservation. Conservation is needed for sustainability, preservation means you cannot step foot on it.

INDUSTRIAL COMMISSION LEGAL UPDATE

The following Litigation updates were presented:

- i. Northwest Landowners v. NDIC – December 12th deadline for the summary judgement motions
- ii. Liberty v. NDIC – Waiting on a decision from McKenzie County
- iii. NDIC v. DOI Quarterly Federal Lease Sales – Meeting with Judge Trainor to discuss about how they are progressing

The following Federal Rulemaking updates were presented:

- i. BLM Leasing Rule – comments had been filed on September 22, 2023.
- ii. DAPL DEIS – it is currently open for comments. There is a statewide effort with the submitting of comments.

NORTH DAKOTA BUILDING AUTHORITY

Ms. Mindy Piatz gave a presentation of the Building Authority June 30, 2023 Audit. They audited the accompanying financial statements of the North Dakota Building Authority, a component unit of the

State of North Dakota as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively compromise the Authority's basic financial statements.

In their opinion, the financial statements present fairly, in all material respects, the respective financial position of the North Dakota Building Authority, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ms. DeAnn Ament presented for consideration of approval the Appointment of Authorized Officer for NDBA.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves the Appointment of Authorized Officer of NDBA, Susan Sisk, and renames Karen Tyler and DeAnn Ament as its Authorized Officers.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

A RESOLUTION WAS MADE

INDUSTRIAL COMMISSION OF NORTH DAKOTA DESIGNATION OF AUTHORIZED OFFICERS

WHEREAS, the Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the "Commission"), pursuant to and in accordance with N.D.C.C. Chapter 54-17.2 (the "Act") has issued evidences of indebtedness, and

WHEREAS, the Commission has previously named Joe Morrisette, Director of the Office of Management and Budget, DeAnn Ament, Executive Director of the Public Finance Authority and Karen Tyler, Industrial Commission Interim Executive Director/Secretary as its Authorized Officers: and

WHEREAS, Joe Morrisette retired and on June 12, 2023, Susan Sisk was named Director of the Office of Management and Budget;

THEREFORE, BE IT RESOLVED:

1. The Commission names Susan Sisk and renames Karen Tyler and DeAnn Ament as its Authorized Officers (the "Authorized Officers") to do all things necessary and convenient jointly or severally to carry out and perform the obligations of the Commission as required under any outstanding North Dakota Building Authority documents and as set out in N.D.C.C. Chapter 54-17.2 effective October 31, 2023.

Dated this 31st day of October, 2023.

NORTH DAKOTA PUBLIC FINANCE AUTHORITY

Ms. Ament presented for consideration of approval the following loan application:

- i. City of Fargo – Drinking Water - \$6,400,000. Proceeds of the loan will be used to rehabilitate the water treatment plant's lime softening filters and install new media in the filters. The requested loan term is 30 years. The City will issue

revenue bond payable from sales tax collections and water user fees. The annual payment will average \$67,464.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves the \$6,400,000 Drinking Water loan to the City of Fargo to rehabilitate the water treatment plant's lime softening filters and install new media in the filters.

On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

A RESOLUTION WAS MADE

RESOLUTION APPROVING

LOAN FROM DRINKING WATER STATE REVOLVING FUND

WHEREAS, the Industrial Commission has heretofore authorized the creation of a Drinking Water State Revolving Fund Program (the "Program") pursuant to N.D.C.C. chs. 6-09.4, 61-28.1, and 61-28.2; and

WHEREAS, the State Revolving Fund is governed in part by the Master Trust Indenture dated as of July 1, 2011 (the "Indenture"), between the North Dakota Public Finance Authority (the "NDPFA") and the Bank of North Dakota (the "Trustee"); and

WHEREAS, the City of Fargo (the "Political Subdivision") has requested a loan in the amount of \$6,400,000 from the Program to rehabilitate sand/anthracite filters in the 1997 lime softening water treatment plant and install sand/granular activated carbon media; and

WHEREAS, NDPFA's Advisory Committee is recommending approval of the Loan; and

WHEREAS, there has been presented to this Commission a form of Loan Agreement proposed to be adopted by the Political Subdivision and entered into with the NDPFA;

NOW, THEREFORE, BE IT RESOLVED by the Industrial Commission of North Dakota as follows:

1. The Loan is hereby approved, as recommended by the Advisory Committee.
2. The form of Loan Agreement to be entered into with the Political Subdivision is hereby approved in substantially the form on file and the Executive Director is hereby authorized to execute the same with all such changes and revisions therein as the Executive Director shall approve.
3. The Executive Director is authorized to fund the Loan from funds on hand in the Drinking Water Loan Fund established under the Indenture upon receipt of the Municipal Securities described in the Political Subdivisions bond resolution, to submit to the Trustee a NDPFA Request pursuant to the Indenture, and to make such other determinations as are required under the Indenture.
4. The Commission declares its intent pursuant to Treasury Regulations '1.150-2 that any Loan funds advanced from the Federally Capitalized Loan Account shall be reimbursed from the proceeds of bonds issued by the NDPFA under the Indenture.

Adopted: October 31, 2023

Ms. Ament gave a presentation of a memo of State Revolving Fund loans approved by the Advisory Committee:

- i. City of Berthold – Clean Water - \$1,050,000. This project will completely replace the water and sanitary sewer mains on Main Street. The requested loan term for the bond is 30 years. The City will issue an improvement bond payable with special assessment collections. The annual payment will average \$44,079. The improvement district includes 337 parcels.
- ii. City of Berthold – Drinking Water - \$731,000. This project will completely replace the water and sanitary sewer mains on Main Street. The requested loan term for the bond is 30 years. The City will issue an improvement bond payable with special assessment collections. The average annual payment for the improvement bonds will be \$30,658. The improvement bonds will be a contingent general obligation of the City, backed by the statutory requirement that the City will levy a general deficiency tax in the event that the revenues from the collection of special assessments are not sufficient to pay the debt service on the improvement bonds.

Being no further business, Governor Burgum adjourned the meeting of the Industrial Commission at 11:34 a.m.

North Dakota Industrial Commission

Brenna Jessen, Recording Secretary

Reice Haase, Deputy Executive Director

Karen Tyler, Interim Executive Director



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

Proposed Dates for 2024 Industrial Commission Meetings

All Times Proposed for 12:30 pm – 5:00 pm unless otherwise indicated

Venue: Governor's Conference Room unless otherwise indicated

Primary:	First Alternate:
Thursday, January 25th, 2024	N/A
Wednesday, February 28th, 2024	N/A
Tuesday, March 26th, 2024	Thursday, March 28th, 2024
Tuesday, April 30th, 2024	Thursday, April 25th, 2024
Tuesday, May 28th, 2024	Thursday, May 30th, 2024
Tuesday, June 25th, 2024	Thursday, June 27th, 2024
Tuesday, July 30th, 2024	Thursday, July 25th, 2024
Tuesday, August 27th, 2024	Thursday, August 29th, 2024
Tuesday, September 24th, 2024	Thursday, September 26th, 2024
Tuesday, October 29th, 2024	Thursday, October 31st, 2024
Tuesday, November 26th, 2024	Thursday, November 28th, 2024
Tuesday, December 17th, 2024	Thursday, December 19th, 2024



Industrial Commission of North Dakota

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

TO: Governor Doug Burgum, Chair
Attorney General Drew H. Wrigley
Agriculture Commissioner Doug Goehring

FR: Interim Executive Director Karen Tyler

DT: November 28, 2023

RE: Vance Taylor Compensation

Fiscal Year 2023 was a record year for the North Dakota Mill. Profits were \$17,238,265 which was an increase from the prior year's profits of 14,677,789 and an all-time record high for the Mill.

When Vance Taylor was hired by the Industrial Commission his compensation package included an annual bonus opportunity based on performance, up to 30% of base salary. Thirty percent of Vance's current base salary of \$358,378.02 is \$107,513.

The Commission has previously determined that the 30% bonus payment is to be determined with two components: 20% of the bonus will be based on what had been distributed to Mill employees under the Mill's gain sharing plan. 10% of the bonus is based on other criteria, with the priority consideration being the achievement of goals established in the Mill Strategic Plan.

The gain sharing payout for FY 2023 for Mill employees was 27.78% as compared to 22.4 7% in 2022. The maximum bonus amount under this component of the compensation plan is \$71,675. All four gain sharing criteria goals were met, and profits as previously stated were a new record for the Mill. Based on the gain sharing payout portion, it is my recommendation that Vance receive the full amount applicable under the 20% component.

The remaining 10% of the 30% bonus potential is \$35,837.80. For this component I recommend \$30,462. Vance and the Mill management team achieved numerous goals that were established by the Commission in the Mill's 2023 strategic plan including successful recognition and celebration of the Mill's 100-year anniversary, re-certification under the Food Safety Systems Certification 3-year audit, the addition of new significant customers, and growth in the conversion margin of 16.8%. Leadership succession planning, acquisition or partnership opportunities, and implementation of 4-shift operations are among the established goals

toward which progress has been made but which will necessitate additional focus going forward.

Vance continues to do an excellent job leading the North Dakota Mill team in the operation of an enterprise that delivers exceptional products and services. **For the 2023 fiscal year I am recommending a bonus totaling \$102,137.00.**