



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE – DEPT 117
BISMARCK, NORTH DAKOTA 58505

Independent Auditor's Report

The Honorable Jack Dalrymple, Governor
of the State of North Dakota

Members of the Legislative Assembly
of the State of North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following state entities and discretely presented component units:

Bank of North Dakota	Mandan Remediation Trust
Beginning Farmer Revolving Loan Fund	Medical Facility Infrastructure Loan Program
Building Authority	PACE and AG PACE Funds
College SAVE	Public Employees Retirement System
Community Water Facility Loan Fund	Rebuilders Loan Program
Department of Trust Lands	Retirement and Investment Office
Guaranteed Student Loan Program	State Fair Association
Housing Finance Agency	Student Loan Trust
Housing Incentive Fund	Workforce Safety and Insurance
Job Service North Dakota	All Discretely Presented Component Units

The financial statements of the above entities reflect total assets, net position or fund balance, and revenues of the government-wide financial statements and fund financial statements as follows:

	<u>Percent of Assets</u>	<u>Percent of Net Position or Fund Balance</u>	<u>Percent of Revenues</u>
<u>Government-Wide Financial Statements</u>			
Governmental Activities	27%	28%	16%
Business-Type Activities	83%	54%	51%
Aggregate Discretely Presented Component Units	100%	100%	100%
<u>Fund Financial Statements</u>			
Major Governmental Funds			
General Fund	0%	0%	0%
Federal Fund	1%	1%	2%
State Special Revenue Fund	61%	63%	43%
Major Enterprise Funds			
Bank of North Dakota	100%	100%	100%
Housing Finance Agency	100%	100%	100%
University System	0%	0%	0%
Workforce Safety and Insurance	100%	100%	100%
Aggregate Remaining Fund Statements	94%	96%	78%

The financial statements for these entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the North Dakota University System's discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Notes 2 and 20 to the financial statements, the State of North Dakota adopted the provisions of GASB 68 *Accounting and Financial Reporting for Pensions*, and GASB 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result of these required changes in accounting principle, the State of North Dakota recorded reductions in beginning net position of \$271 million for governmental activities, \$95 million for business-type activities, and \$136 thousand for discrete component units. The amounts reported for ending position reflect the newly required net pension assets, deferred outflows of resources, net pension liabilities, and deferred inflows of resources related to the State of North Dakota's participation in defined benefit retirement systems. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the 2014 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the basic financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Management's Discussion and Analysis (pages 20-30);
- Budgetary Comparison Schedules and related reconciliations and notes (pages 140-146), and;
- Information about the State of North Dakota's pension plans (pages 147-158).

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Dakota's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules listed in the table of contents are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory and statistical sections (pages 5-14 and 188-216, respectively) have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015 on our consideration of the State of North Dakota'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 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 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 State of North Dakota's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor



Edwin J. Nagel, Jr., CPA
Director

Bismarck, North Dakota

December 16, 2015