North Dakota®
DEPARTMENT OF COMMERCE

2011 North Dakota Development Fund

Annual Report

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"The North Dakota Development Fund is a valuable financing tool for North Dakota businesses, providing a strong return on investment for taxpayers and contributing significantly to job creation. As we continue to grow our economy and create economic opportunities for our citizens, it is important that we provide the financing support for start-up or expansion projects in our state."

Jack Dalrymple, Governor

Jack Dalrymple
Governor

Al Anderson
Commissioner
ND Department of Commerce

North Dakota Development Fund Board Members

The Governor appoints an eight-member Board of Directors that oversees the North Dakota Development Fund. Each member represents a different business sector from the state.

Richard McKennett, Chairman | Williston
Member–at–Large

Bob McNeill, Vice-Chairman | Dickinson
Private Sector

John Erickson | Grand Forks
Industrial Technology and Research Sector

Rob Gayton | Mandan
Native American Sector

Vacant
Rural Sector

Darcy Volk | Bismarck
Exported Services Sector

Terri Zimmerman | Fargo
Finance Sector

Al Anderson | Bismarck
Commissioner of ND Department of Commerce
Agency Sector

The Following Development Fund Staff Facilitates This Process

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About the North Dakota Development Fund

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

The Development Fund makes investments of up to $300,000. The Board of Directors may adjust the limit when deemed appropriate. In general, the following criteria apply to Development Fund investments:

- The entrepreneur must have a realistic financial commitment at stake. Usually, principals are required to have a minimum of 15 percent equity in the project.
- Refinancing of debt is not eligible.
- Principal shareholders with 20 percent or greater ownership are generally required to guarantee the debt. Other shareholders may also be required to guarantee.
- The Development Fund will not participate in more than 50 percent of a project's capitalization needs.
- Financing is available to any primary sector business project with the exception of production agriculture.
- Primary sector includes individuals and businesses which, through the employment of knowledge or labor, add value to a product, process or service which results in the creation of new wealth. Primary sector includes tourism and specific types of investor-owned agriculture, and is typically businesses such as manufacturers, food processors or export service companies. Investor-owned agriculture includes livestock feeding or milking operations, or other value-added agriculture located apart from an individual farm operation that is professionally managed and has employees.

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

- North Dakota Development Fund
- Regional Rural Revolving Loan Fund
- Rural Incentive Growth Loan Program
- Small Business Technology Program
- Child Care Loan Program
- New Venture Capital Program
- Entrepreneur Loan Program
- Entrepreneurial Center Loan Program

Please contact the North Dakota Development Fund or visit www.NDDevelopmentFund.com for additional information on the programs listed above.

Introduction

The Development Fund invested $5,113,646 in 27 primary sector business and child care projects from July 1, 2010 to June 30, 2011. The Development Fund provides gap financing and the Fund's investments since inception have reached nearly $90 million.

Dean Reese, CEO
ND Development Fund

With the Development Fund's dollars invested, there has been $16,965,250 leveraged from other financing institutions, which means for every Development Fund dollar invested, $3.32 was invested from other sources.

The investments made by the Development Fund in 2010 to 2011 contributed to the projected creation of 210 jobs in the primary sector.

The Development Fund reported an estimated June 30, 2011 fiscal year-end operating income of $498,877 before bad debt expense, as compared to $478,176 for the fiscal year-end 2010. The increase in income is attributable to an increase in gain for sale of investment. The Fund saw an increase in general and administrative expenses of $11,329 from 2010 to 2011.

The Development Fund pays all costs of operating the Fund, including salaries and benefits. The cash flow generated from principal and interest collections continued to be strong at $3.5 million. The Development Fund remains a "revolving" loan fund as it has collected $7.0 million the past two years, which in turn can be used for future loan and equity investments.

Net loss before non-operating revenues (expense) improved by $627,798 from ($643,809) in 2010 to ($16,011) in 2011. The improvement in the net loss was due mainly to a decreased allocation to bad debt expense for the year.

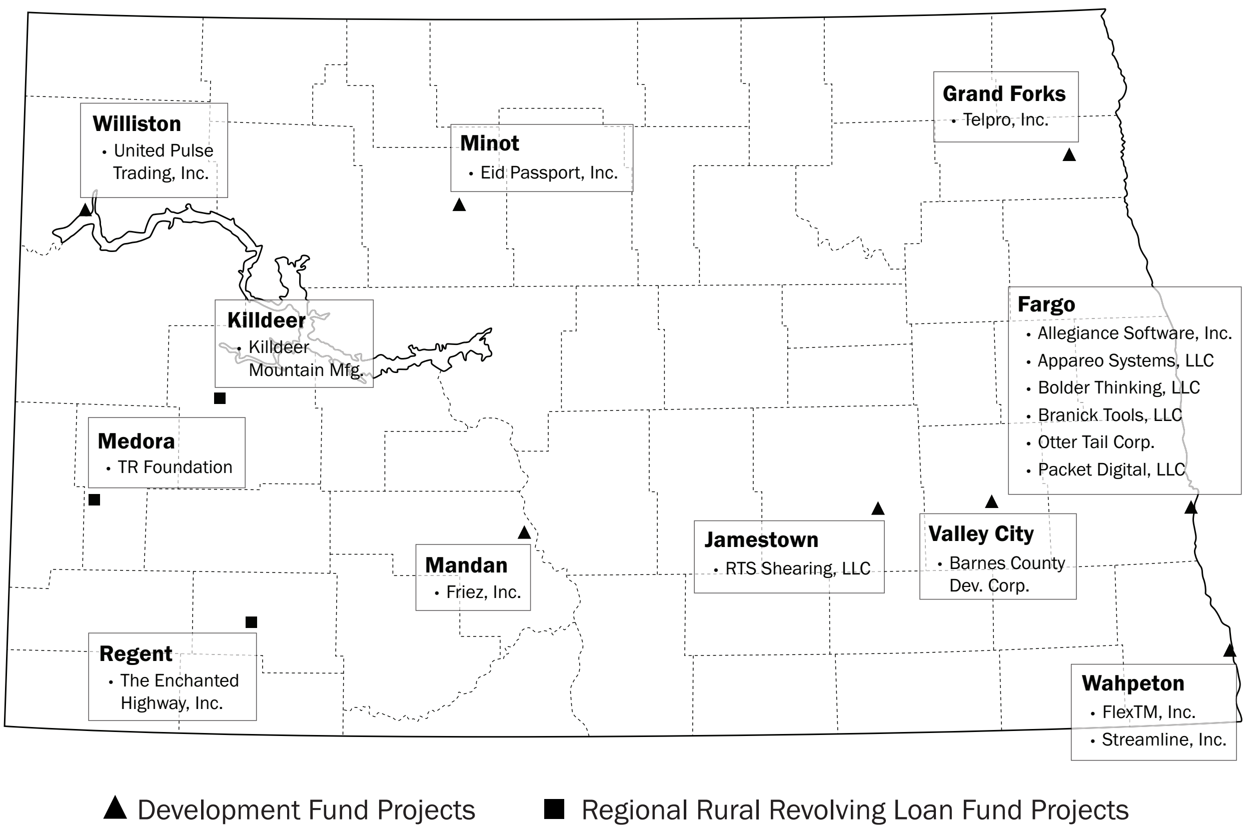
Since the inception of the Fund, it has invested nearly $90 million in 491 companies, with over $30.5 million invested in rural communities. The investments made by the Fund have contributed to the projected creation of 10,237 primary sector jobs. The Development Fund helped eight start-up businesses begin operations in North Dakota in 2010 and 2011. Of the eight businesses, one was in a rural community.

Economic activity continued to be strong in North Dakota in 2011 as compared to the national economy. In providing flexible financing, the Development Fund helped primary sector businesses start up or expand, which in turn created new jobs and generated new revenues. This report includes highlights of 2010-2011 along with accompanying financial statements.

Dean Reese, CEO
North Dakota Development Fund

The investments made by the Development Fund in 2010 to 2011 contributed to the projected creation of 210 jobs in the primary sector.

Development Fund/Regional Rural Revolving Loan Fund Investments from July 1, 2010 to June 30, 2011



United Pulse Trading, Inc. — Williston and Minot

DEVELOPMENT IN ACTION

With value-added processing facilities in Williston and Minot, United Pulse Trading is the largest lentil and pea splitting company in the Americas. The Canadian-based company has spent 60 years providing premium quality lentils, split peas and chickpeas to customers around the globe. Besides cleaning and shipping them in whole form, United Pulse Trading adds value by grinding them into flour and ingredients for breads, snack foods and noodles.

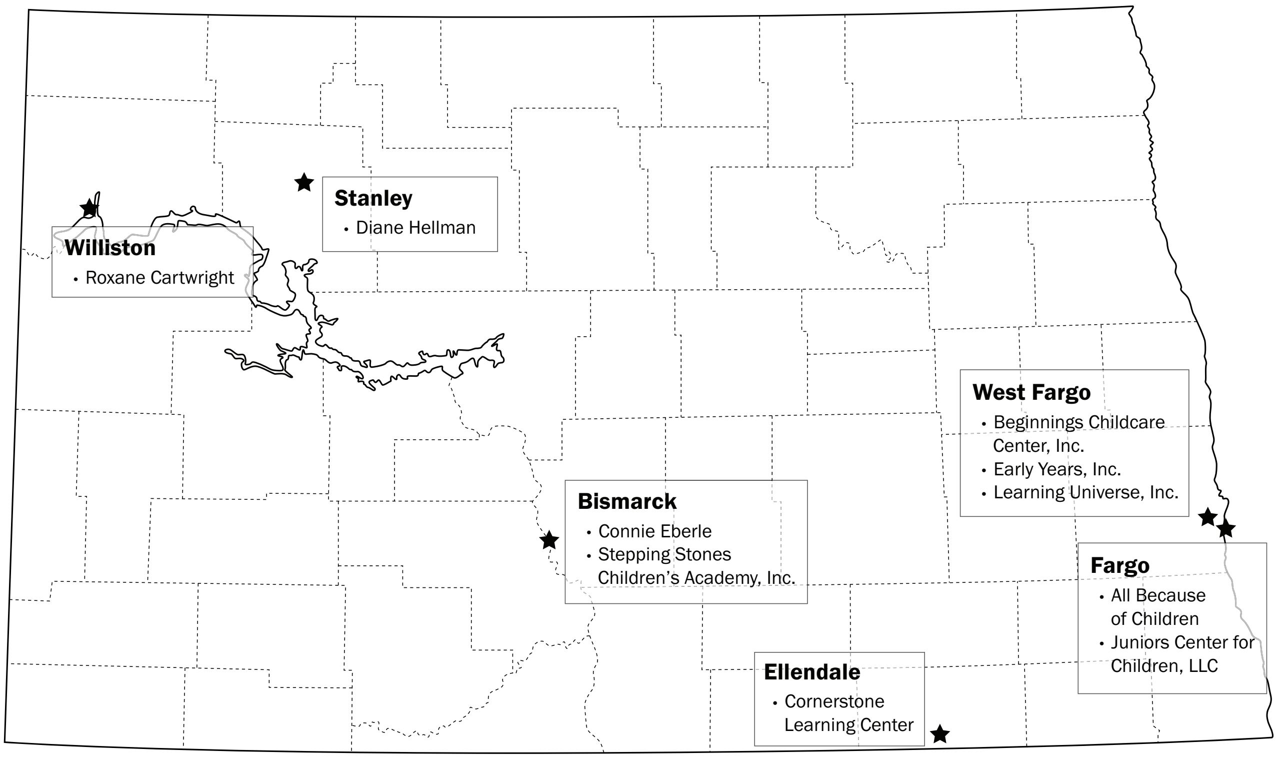
“We see a great opportunity of utilizing the benefits of peas and lentils into current food applications today,” said Eric Bartsch, general manager of United Pulse Trading. “We’ve positioned ourselves to add the value here, not exporting it and adding that value at the destination.”

The Development Fund enabled United Pulse Trading to purchase technical equipment essential to expand the company’s functions, but it was the welcoming spirit behind those resources that made the biggest impact.

“When you have programs like the Development Fund that want to work hand-in-hand with you to provide opportunities for doing business in the state, that’s an attractive piece,” Bartsch said.

The growth potential for United Pulse Trading seems endless with opportunities to market their products to additional food companies, and expand capabilities to produce the food products at their origin – right here in North Dakota.

Child Care Loan Program Investments from July 1, 2010 to June 30, 2011



Cornerstone Learning Center — Ellendale

DEVELOPMENT IN ACTION

Cornerstone Learning Center is a curriculum-based child care center in Ellendale. The business has primarily focused on providing preschool and child care services for children ages 0 to 12 years, but now offers after-school and summer programs to meet the increasing needs of the community.

"The Development Fund enabled us to develop something no one else has, so the kids can not only have a place after school for homework help, but after that they have activities to keep them engaged," said owner Amy Taylor. The funding allowed Cornerstone Learning Center to purchase equipment, such as climbing walls and a basketball zone, to enhance its programs.

As a one-stop drop for preschool and daycare, the center is unique to the community and helps parents avoid pick-up and drop-off challenges in the middle of the day.

Cornerstone Learning Center hopes to continue to grow its enrollment with the additions made possible by the Development Fund.

"We're just getting the word out, but we've had a lot of positive feedback so far," Taylor said. "The big difference is with the older kids, and that's the greatest need for parents."

Appareo Systems, LLC — Fargo

DEVELOPMENT IN ACTION

Appareo Systems has charted new territory in flight safety by bringing innovative products to the aviation industry. They specialize in miniaturized projects, like a 300-gram camera no bigger than a computer mouse, used within cockpit imaging systems. However, as great ideas developed, the production was left to vendors – many out-of-state. With a $500,000 boost from the Development Fund, Appareo Systems can now do it all within their own facility.

“Our volumes have increased significantly and our vendors couldn’t accommodate the growth,” said Ahron Walter, chief financial officer at Appareo Systems. “We made the decision to bring on our own manufacturing line and complete the entire process here.”

The Development Fund also offered this creative company the ability to expand into the agriculture industry, providing high-tech electronics for farmers to help them better manage their operations.

“Being a small company without a solid foundation and history, many banks won’t support promissory notes,” Walter said. “With the Development Fund, we still had to prove that we’re a viable investment, but it gave us a chance to be reviewed more favorably by people who understand small business and what it takes to grow within the state.”

Eid Passport, Inc. — Minot

DEVELOPMENT IN ACTION

Eid Passport, Inc. is a technology company providing security services to the military, government and commercial business. Through identity and access management, their products and services enhance the safety and security of the United States.

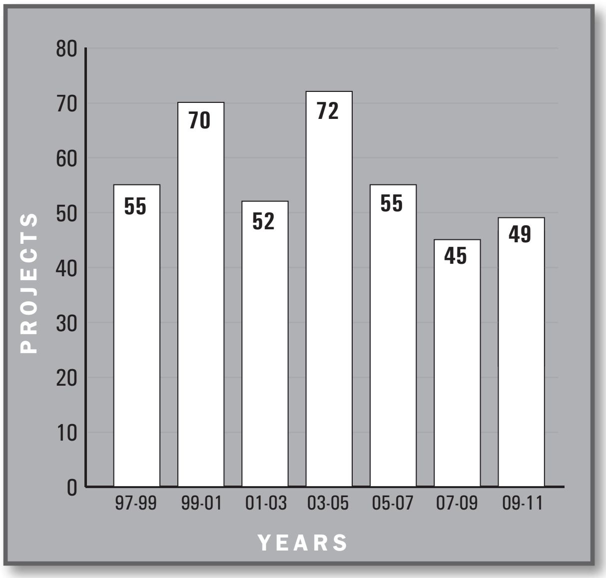
The state of North Dakota assisted Eid Passport with loan and equity investments of $300,000 from the Development Fund. The funds were used to purchase necessary IT equipment and complete the build out of the Minot facility. It also helped fund employee salaries there.

“The funding provided us with the capital necessary to open the Minot facility and quickly ramp up operations,” said Sean Sullivan, Eid Passport vice president of strategic initiatives.

Eid Passport continues to explore new opportunities in security and identity management. They are also collaborating with Minot State University to establish a professional homeland security continuing education program slated to begin in 2012.

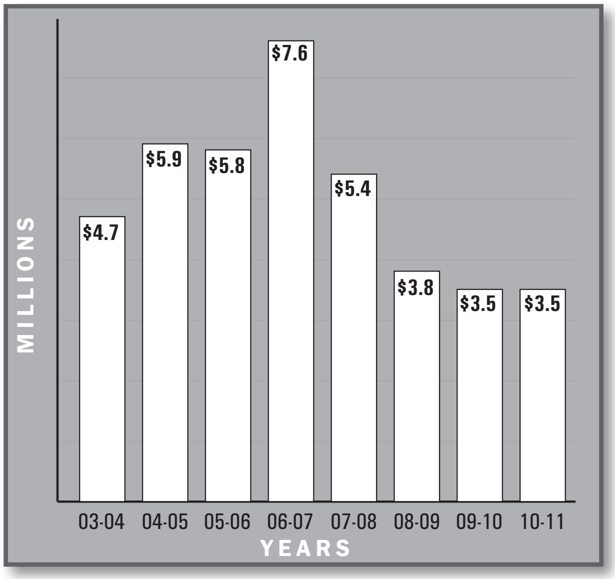
“Our successes are closely associated with the communities in which we are located; in this case, from our highly skilled and dedicated employees in the Minot facility,” Sullivan said.

Growth in Development Fund Projects



The Development Fund invested in 27 projects from 2010-11. The number of projects funded to date were up from 2007-2009.

Development Fund Cash Flow (Millions)



The Development Fund collected $3.5 million in 2010-11, averaging $5.02 million in collections in the past eight years. The Development Fund continues to revolve and the funds collected continue to be used to fund future loan and equity investments in the state.

Branick Tools, LLC — Fargo

DEVELOPMENT IN ACTION

When a business has been around for 94 years, they must be doing something right. For Branick Industries, it has meant advancing the auto and tire industry with world-class engineering.

As Branick adds to its ever-growing product line, its subsidiary Branick Tools, LLC recently developed the SMART-O plug, a high-tech material o-ring that automatically expands upon contact with engine oil. Every day, dozens of drain plugs fall out of vehicles when they are not secured properly, damaging oil pans and often leading to engine replacement. The SMART-O plug offers safe-sealing, anti-vibration functions to avoid those problems.

The technology was developed years ago by a service manager in Florida, but he needed help making his concept a reality. Branick Tools did just that. Once the product was ready, they used the Development Fund to stock up on inventory to accommodate large corporate accounts.

With the onslaught of new customers brought on by SMART-O plugs, Branick Industries is able to introduce them to other products they've designed throughout their long history.

"It's fun to have something new to build relationships," said Branick Industries President Brian Brasch. "The further we go forward, the deeper market penetration we'll have into existing and new accounts."

27 Businesses Benefited From North Dakota Development Fund Investments from July 1, 2010 to June 30, 2011

PROJECTS		
TR Foundation	Medora	$30,000
United Pulse Trading, Inc.	Williston	$500,000
Packet Digital, LLC	Fargo	$500,000
Allegiance Software, Inc.	Fargo	$77,594
EID Passport, Inc.	Minot	$300,000
Streamline, Inc.	Wahpeton	$87,500
Bolder Thinking, LLC	Fargo	$150,000
Branick Tools, LLC	Fargo	$150,000
FlexTM, Inc.	Wahpeton	$350,000
Otter Tail Corp.	Fargo	$500,000
Telpro, Inc.	Grand Forks	$80,000
Appareo Systems, LLC	Fargo	$500,000
RTS Shearing, LLC	Jamestown	$300,000
Killdeer Mountain Mfg.	Killdeer	$300,000
Valley City - Barnes County Development Corp.	Valley City	$500,000
The Enchanted Highway, Inc.	Regent	$60,450
Friez, Inc.	Mandan	$100,000
Child Care Loan Program Projects		
Early Years, Inc.	West Fargo	$96,000
Cornerstone Learning Center	Ellendale	$82,000
All Because of Children	Fargo	$68,985
Diane Hellman	Stanley	$100,000
Stepping Stones Children's Academy, Inc.	Bismarck	$35,000
Beginnings Childcare Center, Inc.	West Fargo	$100,000
Learning Universe, Inc.	West Fargo	$80,000
Connie Eberle	Bismarck	$30,000
Roxane Cartwright	Williston	$11,117
Juniors Center for Children, LLC	Fargo	$25,000
	TOTAL	***$5,113,646***

FlexTM, Inc. — Wahpeton

DEVELOPMENT IN ACTION

A quiet company that often surprises people with its magnitude has served agricultural, industrial, recreational and commercial customers for nearly 50 years. FlexTM in Wahpeton supplies metal fabricated parts worldwide.

In 2010, the business was set to close its doors. With a collaborative effort between the Development Fund and the local bank, it was revived in 2011 with a new owner.

"This business is here today only because the Development Fund worked with Wells Fargo to make this work," said owner Brad Odegard.

FlexTM has transformed into a company that invests in its employees and equipment. Step inside and find welding done by robots, lasers creating precise curves or bends, and a team of people capable and flexible to meet customer needs.

"Very few people know about us and what goes on here. They don't know we produce several million parts a year, employ 45 people and have a vast array of equipment," Odegard said.

FlexTM expects plenty of growth in the years to come while staying true to its core competencies. "We will continue to do what we do best," Odegard said. "We're right on track, and continuing to blaze ahead."

RTS Shearing, LLC — Jamestown

DEVELOPMENT IN ACTION

RTS Shearing in Jamestown is a multi-faceted scrap iron loading, hauling and demolition facility. It recently added a civil division, assisting in grading operations for flooded county roads.

“To our knowledge, we’re the only company like this in the United States,” said General Manager Jerry Szarkowski. “We offer so many different services and are willing to travel across the country. There are other companies that have shears and will travel 100 miles, but doing what we do and the way we do it – we’re quite unique, if not one-of-a-kind.”

The Development Fund gave RTS Shearing the ability to add 10 employees, stay current with payroll, and take on demolition jobs in Texas.

“A lot of companies in the United States are scrambling to keep the doors open, and we’re getting calls from 1,500 miles away wondering if we can come give them a hand,” Szarkowski said.

RTS Shearing has committed to significant growth for 2012 and plans to evaluate how much more they can feasibly pursue.

“We aren’t as big as the big guys but have a lot more capability than the small guys, so we have a niche in there,” Szarkowski. “On the right project we’re pretty tough to beat.”

The Enchanted Highway, Inc. — Regent

DEVELOPMENT IN ACTION

The Enchanted Highway features the world’s largest metal sculptures produced by artist Gary Greff. Greff was concerned his small hometown of Regent couldn’t survive solely on the agriculture industry, so he began designing, welding and painting metal sculptures along 32 miles of roadway north of Regent in hopes of luring tourists to the community. Greff plans to add four more sculptures to the seven already erected along the highway. In the meantime, he is converting Regent’s former school into a 24-room motel, aptly named The Enchanted Castle. The Development Fund helped Greff get started on the motel.

“I needed over $100,000 in order for the bank to issue a loan, and the Development Fund provided leverage to get additional help from the Roosevelt Custer Regional Council so I could then approach the bank,” Greff said. “One helps the other.”

The distinctive highway will bring travelers to the entrance of the motel, designed to look like a castle, complete with a drawbridge and a knight fighting a dragon. Greff also plans to open an RV park, a dinner theatre and a café.

“I hope Regent becomes the Metal Art Capital,” Greff said. “If that happens, tourists can stay at The Enchanted Castle, go to the theatre, and we become a destination rather than just a drive-through.”

Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

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

We have audited the accompanying basic financial statements of the North Dakota Development Fund, Inc., a component unit of the State of North Dakota, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Development Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the financial statements of the State of North Dakota that is attributable to the transactions of the North Dakota Development Fund, Inc. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2011 and 2010, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Development Fund, Inc. as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the North Dakota Development Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 to 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information on pages 29 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to 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 financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Bismarck, North Dakota
October 31, 2011

Management's Discussion and Analysis • June 30, 2011

The discussion and analysis of the financial performance of the North Dakota Development Fund that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2011. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS

Total revenue increased by $19,543 (2.04%) to $977,068. Operating revenues increased by $32,107 (3.71%) to $897,664. Cash flow decreased by $118,903 (3.25%) to $3,534,979. The Development Fund collected $2,407,911 in principal payments in 2011, which was an increase of $35,812 (1.50%) from 2010. The increase in total revenues and operating revenues was attributable to an increase in "Gain on Sale of Investment" and fees received on closed investments and loans. Cash flow was lower in 2011 due to the Development Fund receiving additional payouts in their equity investments in 2010 than in 2011.

The Development Fund received $109,128 in dividend payments in 2011 from equity investments made, down from the $149,679 received in dividend payments in 2010. The decrease was attributable to a reduction in dividends paid to the Development Fund in 2011 as compared to 2010. The Development Fund received requests from companies in 2011 to defer the dividend payment to 2012 due to decreased operating funds to make the payments.

General and Administrative expense increased by $11,329 (2.9%) from $386,615 in 2010 to $397,944 in 2011. The increase in administrative expense was attributable to an increase in salary expense from 2010 to 2011.

Operating loss before non-operating revenues and expenses improved by ($627,798) from ($643,809) in 2010 to ($16,011) in 2011. The improvement in the operating loss in 2011 was attributable to a decrease in reserve for bad debt expense in 2011 as compared to 2010.

Interest income on deposits decreased by $12,564 (14.25%) from $91,968 received in 2010 to $79,404 received in 2011. The decrease was the result of decreased interest rates received on the investments being made in certificates of deposit at the Bank of North Dakota.

The change in net assets increased by $615,234 from ($551,841) in 2010 to $63,393 in 2011. The increase was attributable to the decreased amount required to be reserved for bad debt expense.

Net assets increased by $63,393 from $23,078,701 in 2010 to $23,142,094 in 2011. The increase was attributable to a decrease in reserve to bad debt expense.

Noncurrent net assets (excluding equipment) increased by $607,367 from $7,234,496 in 2010 to $7,841,863 in 2011. The noncurrent assets consist of the Development Fund's loan and equity investments. The equity investments made decreased by $589,805 from 2010 to 2011. The equity investments that were charged off during 2011 were $370,800 as compared to $315,000 in 2010. The loan investments made increased by $844,812 from 2010 to 2011. The loan investments that were charged off during 2011 were $228,327 as compared to $1,197,027 in 2010. The large charge-off in the loan investments in 2010 was attributable to the closing out of the Technology Transfer, Inc. portfolio that the North Dakota Development Fund was charged to manage after the assets of the corporation were transferred to the Development Fund in 1999 through legislative intent in 1997. The Technology Transfer, Inc. charge-off amount was $1,278,052 (Equities: $200,000 and Loans: $1,078,052). The Development Fund saw a decline in equity requests in 2011, but saw an increase in requests for loans. Also included in the loan investment balance were loans closed under the new Child Care Loan Program, created by Legislative intent and an appropriation from the Legislative session in 2009 and became effective July 1, 2009.

Management's Discussion and Analysis • June 30, 2011

FINANCIAL HIGHLIGHTS (continued)

Interest receivable on deposits and loans decreased by ($5,463) to $73,886. The receivable remained stable in 2011 due to the continued improved monitoring of past due accounts and not having to put additional accounts on non-accrual.

Cash and cash equivalents decreased by ($2,001,563) (30.05%) to $4,650,365 (cash balance is before loan and investment commitments). The decrease in cash and cash equivalents was attributable to an increase in the overall (loan and equity) investments made and an increase in investment made by the Development Fund into certificates of deposit at the Bank of North Dakota. The Development Fund invests their funds into longer-term deposits for a higher rate of return to coincide with the funding commitments made by the Development Fund to companies for loans and equity investments, which are not required to be funded in the short-term.

Twenty-seven projects were funded totaling $5,113,646.

REQUIRED FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEET, JUNE 30, 2011 AND 2010

Assets	2011	2010	2009
Current assets	$ 16,563,884	$ 17,207,305	$ 15,137,837
Capital assets	-	-	766
Other noncurrent assets	7,841,863	7,234,496	8,505,592
Total noncurrent assets	7,841,863	7,234,496	8,506,358
Total assets	$ 24,405,747	$ 24,441,801	$ 23,644,195
Net Assets			
Current liabilities	$ 1,263,653	$ 1,363,100	$ 13,653
Invested in capital assets, net of related debt	-	-	766
Unrestricted	23,142,094	23,078,701	23,629,776
Total net assets	23,142,094	23,078,701	23,630,542
Total liabilities and net assets	$ 24,405,747	$ 24,441,801	$ 23,644,195

Cash and Cash Equivalents

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

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	2011	2010	2009
Operating Revenues			
Interest income on loans	$ 584,757	$ 660,760	$ 678,910
Dividend income	109,128	149,679	40,435
Gain on sale of investment	93,542	-	100,824
Other	110,237	55,118	67,480
	897,664	865,557	887,649
Nonoperating Revenue (Expense)			
Interest income on deposits	79,404	91,968	233,596
	79,404	91,968	233,596
Total Revenue	977,068	957,525	1,121,245

	2011	2010	2009
Operating Expenses			
General and administrative	397,944	386,615	377,204
Depreciation expense	843	766	-
Bad debt expense	514,888	1,121,985	1,096,483
	913,675	1,509,366	1,473,687
Change in Net Assets	63,393	(551,841)	(352,442)
Net Assets, Beginning of Year	23,078,701	23,630,542	23,982,984
Net Assets, End of Year	$ 23,142,094	$ 23,078,701	$ 23,630,542

Financial Statements

BALANCE SHEETS
JUNE 30, 2011 AND 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 4,650,365	$ 6,651,928
Interest receivable on deposits and loans	73,886	79,349
Investments	9,236,500	8,110,340
Current portion of loans receivable	2,603,133	2,365,688
Total current assets	16,563,884	17,207,305
Noncurrent Assets		
Loans receivable, net of current portion	7,841,863	7,234,496
Total assets	$ 24,405,747	$ 24,441,801
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ -	$ 49,747
Accrued expenses	13,653	13,653
Due to state	1,250,000	1,299,700
Total current liabilities	1,263,653	1,363,100
Net Assets		
Unrestricted	23,142,094	23,078,701
Total net assets	23,142,094	23,078,701
Total liabilities and net assets	$ 24,405,747	$ 24,441,801

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues		
Interest income on loans	$ 584,757	$ 660,760
Dividend income	109,128	149,679
Gain on sale of investment	93,542	-
Other	110,237	55,118
	897,664	865,557
Operating Expenses		
General and administrative	397,944	386,615
Depreciation expense	843	766
Bad debt expense	514,888	1,121,985
	913,675	1,509,366
Operating Loss	(16,011)	(643,809)
Nonoperating Revenue		
Interest income on deposits and investments	79,404	91,968
	79,404	91,968
Change in Net Assets	63,393	(551,841)
Net Assets, Beginning of Year	23,078,701	23,630,542
Net Assets, End of Year	$ 23,142,094	$ 23,078,701

Financial Statements

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Activities		
Other receipts	$ 386,666	$ 171,928
Payments to suppliers	(447,691)	(336,868)
Net Cash used for Operating Activities	(61,025)	(164,940)
Investing Activities		
Interest received on cash and cash equivalents	689,407	791,477
Purchase of equipment	(843)	-
Purchase of equity investments	(87,500)	(400,003)
Proceeds from the sale of equity investments	150,000	324,258
Purchase of investments	(13,794,750)	(44,542,338)
Sale of investments	12,575,048	42,450,998
Disbursements of business loans	(3,830,111)	(2,166,458)
Principal payments received on business loans	2,407,911	2,372,099
Net Cash used for Investing Activities	(1,890,838)	(1,169,967)
Non-Capital and Related Financing Activities		
Paydown of appropriations	(49,700)	-
Proceeds from state appropriations	-	1,299,700
Net Cash (used for) Provided by Financing Activities	(49,700)	1,299,700
Net Change in Cash and Cash Equivalents	(2,001,563)	(35,207)
Cash and Cash Equivalents at Beginning of Year	6,651,928	6,687,135
Cash and Cash Equivalents at End of Year	$ 4,650,365	$ 6,651,928

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010 (CONTINUED)

	2011	2010
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	$ (16,011)	$ (643,809)
Adjustments to reconcile operating		
loss to net cash from operating activities		
Depreciation	843	766
Increase (decrease) in accounts payable	(49,747)	49,747
Gain on sale of investment	93,542	-
Allowance for doubtful loan receivables	577,388	212,183
Allowance for realized loss on investments	(62,500)	909,802
Reclassification of interest and dividend income	(604,540)	(693,629)
Net Cash used for Operating Activities	$ (61,025)	$ (164,940)
Supplemental Schedule of Noncash Activities		
Loans receivable written off	$ 228,327	$ 1,197,027
Equity investments written off	370,800	315,000

Notes to Financial Statements • Years Ended June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

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

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

The following activities are used by the Corporation:

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

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

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

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

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

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

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

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

BASIS OF ACCOUNTING

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

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

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

The Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement 20, the Corporation follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

REVENUE AND EXPENSE RECOGNITION

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities.

Notes to Financial Statements • Years Ended June 30, 2011 and 2010

REVENUE AND EXPENSE RECOGNITION (CONTINUED)

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

CONCENTRATION OF CREDIT RISK

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

CASH EQUIVALENTS

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

INVESTMENTS

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net assets.

EQUITY INVESTMENTS

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 4).

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

EXPENSE ALLOCATION

The Development Fund pays all expenses of the Corporation.

USE OF ESTIMATES

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

FIXED ASSETS AND DEPRECIATION

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

LOANS

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

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

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

Notes to Financial Statements • Years Ended June 30, 2011 and 2010

NOTE 2 - DEPOSITS AND INVESTMENTS

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2011, the Corporation had the following cash and investments:

	Fair Value	Less Than One Year
Cash		
Bank of North Dakota	$ 4,650,365	$ 4,650,365
Investments		
Certificates of deposit		
Bank of North Dakota	9,236,500	9,236,500
	$ 13,886,865	$ 13,886,865

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of investments that will adversely affect the fair value of the investments. At June 30, 2011, the schedule above shows the investments by investment type, amount and the duration.

Cash and investments were recorded on the statement of net assets as follows:

	Balance
Cash and Cash Equivalents	$ 4,650,365
Investments	9,236,500
	$ 13,886,865

CUSTODIAL AND CONCENTRATION OF CREDIT RISK

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

NOTE 3 – INTEREST RECEIVABLE

Interest receivable at June 30, 2011 and 2010 is as follows:

	2011	2010
Due from Bank of North Dakota	$ -	$ 8,006
Interest Receivable from Loans	73,886	71,343
	$ 73,886	$ 79,349

NOTE 4 - EQUITY INVESTMENTS

Equity investments in business concerns as of June 30, 2011 and 2010 are as follows:

	2011	2010
Development Fund	$ 3,922,830	$ 4,437,355
Regional Rural Development Revolving Loan Fund	1,171,490	1,246,770
	5,094,320	5,684,125
Valuation Allowance - Other than Temporary Impairment	(5,094,320)	(5,684,125)
	$ -	$ -

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

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

Notes to Financial Statements • Years Ended June 30, 2011 and 2010

NOTE 5 – EQUITY INVESTMENTS – VALUATION ALLOWANCE

Changes in the valuation allowance for equity investments as of June 30, 2011 and 2010 are as follows:

	2011	2010
Balance, Beginning of Year	$ 5,684,125	$ 5,089,323
Provision for Equity Investment Losses	(62,500)	909,802
Transfers	(156,505)	-
Equity Investments Charged Off	(370,800)	(315,000)
Balance, End of Year	$ 5,094,320	$ 5,684,125

NOTE 6 - LOANS RECEIVABLE

Loans receivable at June 30, 2011 and 2010 are as follows:

	2011	2010
Development Fund	$ 9,134,747	$ 7,941,755
Regional Rural Development Revolving Loan Fund	5,528,147	5,981,863
Child Care Loan Program	789,939	178,837
	15,452,833	14,102,455
Allowance for Loan Losses	(5,007,837)	(4,502,271)
Loans Receivable, Net of Allowance for Loan Losses	10,444,996	9,600,184
Less: Current Portion of Loans Receivable	2,603,133	2,365,688
Loans Receivable, Net of Current Portion	$ 7,841,863	$ 7,234,496

Notes receivable of $0 and $85,203 at June 30, 2011 and 2010, respectively, do not have set repayment dates and are not interest bearing. The receivables will be repaid through royalties based on a set percentage of gross sales. The agreements provide for repayment between 100% to 167% of the outstanding note balance upon the funded product reaching commercialization. If the product does not reach commercialization, generally, the note does not have to be repaid.

NOTE 7 – ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses as of June 30, 2011 and 2010 are as follows:

	2011	2010
Balance, Beginning of Year	$ 4,502,271	$ 5,487,115
Provision for Loan Losses	577,388	212,183
Transfers	156,505	-
Loans Charged Off	(228,327)	(1,197,027)
Balance, End of Year	$ 5,007,837	$ 4,502,271

NOTE 8 - EQUIPMENT

A statement of changes in fixed assets for the years ended June 30, 2011 and 2010 is as follows:

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Furniture and Equipment	$ 10,095	$ -	$ -	$ 10,095
Computer Software	77,345	843	-	78,188
Accumulated Depreciation	(87,440)	(843)	-	(88,283)
	$ -	$ -	$ -	$ -

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10
Furniture and Equipment	$ 10,095	$ -	$ -	$ 10,095
Computer Software	77,345	-	-	77,345
Accumulated Depreciation	(86,674)	(766)	-	(87,440)
	$ 766	$ (766)	$ -	$ -

NOTE 9 - DUE TO STATE

In 2010, the State of North Dakota appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the state of North Dakota. The program was extended in the last legislative session through June 30, 2013, at which time it expires. On that date, the appropriation amount is set to be returned to the state. As of June 30, 2011 and 2010, $1,250,000 and $1,299,700 is due back to the state, respectively.

Notes to Financial Statements • Years Ended June 30, 2011 and 2010

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In 2011, the State of North Dakota appropriated $1,000,000 to the North Dakota Development Fund to develop the Small Business Technology Investment Program for the purpose of providing loans to new and expanding technology companies within the state of North Dakota.

DEVELOPMENT FUND
The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2011 and 2010, for which funds have not been disbursed or written agreements entered into in the approximate amount of $3,362,579 and $942,226.

REGIONAL RURAL DEVELOPMENT REVOLVING LOAN FUND
The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2011 and 2010, for which funds have not been disbursed or written agreements entered into in the approximate amount of $1,137,666 and $788,731.

CHILD CARE LOAN PROGRAM
The Board of Directors has approved loans at June 30, 2011 and 2010, for which funds have not been disbursed or written agreements entered into in the approximate amount of $25,867 and $112,356.

NOTE 11 - RISK MANAGEMENT

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

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

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of $100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Combining Financial Statements and Supplementary Information

COMBINING BALANCE SHEETS
JUNE 30, 2011 AND 2010

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Eliminations	2011	2010
Assets						
Current Assets						
Cash and cash equivalents	$ 2,500,328	$ 1,672,652	$ 477,385	$	$ 4,650,365	$ 6,651,928
Interest receivable on deposits and loans	42,245	31,641	-	-	73,886	79,349
Investments	5,956,000	3,280,500	-	-	9,236,500	8,110,340
Current portion of loans receivable	1,818,159	689,574	95,400	-	2,603,133	2,365,688
Intercompany receivable (payable)	(5,229)	5,229		-	-	-
Total current assets	10,311,503	5,679,596	572,785	-	16,563,884	17,207,305
Noncurrent Assets						
Loans receivable, net of current portion	5,240,116	2,354,149	247,598	-	7,841,863	7,234,496
Total assets	$ 15,551,619	$ 8,033,745	$ 820,383	$ -	$ 24,405,747	$ 24,441,801
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ 49,747
Accrued expenses	13,653	-	-	-	13,653	13,653
Due to state	-	-	1,250,000	-	1,250,000	1,299,700
Total liabilities	13,653	-	1,250,000	-	1,263,653	1,363,100
Net Assets						
Unrestricted	15,537,966	8,033,745	(429,617)	-	23,142,094	23,078,701
Total net assets	15,537,966	8,033,745	(429,617)	-	23,142,094	23,078,701
Total liabilities and net assets	$ 15,551,619	$ 8,033,745	$ 820,383	$ -	$ 24,405,747	$ 24,441,801

Combining Financial Statements and Supplementary Information

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Eliminations	2011	2010
Operating Revenues						
Interest income on loans	$ 380,305	$ 194,992	$ 9,460	$ -	$ 584,757	$ 660,760
Dividend income	89,345	19,783	-	-	109,128	149,679
Gain on sale of investment	93,542	-	-	-	93,542	-
Other	109,040	870	327	-	110,237	55,118
	672,232	215,645	9,787	-	897,664	865,557
Operating Expenses						
General and administrative	397,944	-	-	-	397,944	386,615
Depreciation expense	843	-	-	-	843	766
Bad debt expense	78,719	89,715	346,454	-	514,888	1,121,985
	477,506	89,715	346,454	-	913,675	1,509,366
Operating (Loss) Income	194,726	125,930	(336,667)	-	(16,011)	(643,809)
Nonoperating Revenue (Expense)						
Interest income on deposits and investments	58,302	18,723	2,379	-	79,404	91,968
	58,302	18,723	2,379	-	79,404	91,968
Change in Net Assets	253,028	144,653	(334,288)	-	63,393	(551,841)
Net Assets, Beginning of Year	15,284,938	7,889,092	(95,329)	-	23,078,701	23,630,542
Net Assets, End of Year	$ 15,537,966	$ 8,033,745	$ (429,617)	$ -	$ 23,142,094	$ 23,078,701

COMBINING STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Eliminations	2011	2010
Operating Activities						
Other receipts (payments)	$ 436,191	$ (49,852)	$ 327	$ -	$ 386,666	$ 171,928
Payments to suppliers	(447,691)	-	-		(447,691)	(336,868)
Net Cash (used for) Provided by Operating Activities	(11,500)	(49,852)	327	-	(61,025)	(164,940)
Non-Capital Financing Activities						
Paydown of appropriations	-	-	(49,700)	-	(49,700)	-
Proceeds from state appropriations	-	-	-	-	-	1,299,700
Net Cash (used for) Provided by Non-Capital Financing Activities	-	-	(49,700)	-	(49,700)	1,299,700
Investing Activities						
Interest and dividends received	437,355	240,213	11,839	-	689,407	791,477
Purchase of equipment	(843)	-	-	-	(843)	-
Purchase of equity investments	(87,500)	-	-	-	(87,500)	(400,003)
Proceeds from the sale of equity investments	-	150,000	-	-	150,000	324,258
Purchase of investments	(8,456,000)	(4,543,750)	(795,000)	-	(13,794,750)	(44,542,338)
Sale of investments	8,336,093	3,443,955	795,000	-	12,575,048	42,450,998
Disbursements of business loans	(3,110,109)	(60,450)	(659,552)	-	(3,830,111)	(2,166,458)
Principal received on business loans	1,971,598	387,864	48,449	-	2,407,911	2,372,099
Net Cash Provided by Investing Activities	(909,406)	(382,168)	(599,264)	-	(1,890,838)	(1,169,967)
Net Change in Cash and Cash Equivalents	(920,906)	(432,020)	(648,637)	-	(2,001,563)	(35,207)
Cash and Cash Equivalents at Beginning of Year	3,421,234	2,104,672	1,126,022	-	6,651,928	6,687,135
Cash and Cash Equivalents at End of Year	$ 2,500,328	$ 1,672,652	$ 477,385	$ -	$ 4,650,365	$ 6,651,928

Combining Financial Statements and Supplementary Information

COMBINING STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010 (CONTINUED)

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Eliminations	2011	2010
Reconciliation of Operating (Loss) Gain to Net Cash used in Operating Activities						
Operating (loss) gain	$ 194,726	$ 125,930	$ (336,667)	$ -	$ (16,011)	$ (643,809)
Adjustments to reconcile operating (loss) gain to net cash from operating activities						
Depreciation	843	-	-		843	766
Increase in accounts payable	(49,747)	-	-		(49,747)	49,747
Change in intercompany receivable (payable)	50,722	(50,722)			-	-
Gain on sale of investment	93,542	-	-		93,542	-
Allowance for doubtful loan receivables	(8,781)	239,715	346,454	-	577,388	212,183
Allowance for realized loss on investments	87,500	(150,000)	-	-	(62,500)	909,802
Reclassification of interest and dividend income	(380,305)	(214,775)	(9,460)	-	(604,540)	(693,629)
Net Cash (used in) Provided by Operating Activities	$ (11,500)	$ (49,852)	$ 327	$ -	$ (61,025)	$ (164,940)
Supplemental Schedule of Noncash Activities						
Loan receivable written off	$ 176,311	$ 52,016	$ -	$ -	$ 228,327	$ 1,197,027
Equity investments written off	370,800	-		-	370,800	315,000

Contacting the North Dakota Development Fund's Financial Management

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

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North Dakota Department of Commerce

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