

**NORTH DAKOTA HOUSING
FINANCE AGENCY**

*FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008*

NORTH DAKOTA HOUSING FINANCE AGENCY

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INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the **North Dakota Housing Finance Agency**, a department of the State of North Dakota as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the **North Dakota Housing Finance Agency's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of **North Dakota Housing Finance Agency** 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 **North Dakota Housing Finance Agency**. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2009 and 2008, and the changes in financial position and cash flows, where applicable, 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 Housing Finance Agency** as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 a report dated October 19, 2009 on our consideration of the **North Dakota Housing Finance Agency'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 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.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on **North Dakota Housing Finance Agency's** basic financial statements. The accompanying supplementary information on pages 37 through 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 52 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Bismarck, North Dakota
October 19, 2009

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Housing Finance Agency (Agency) that follows is meant to provide additional insight into the Agency's activities for the year ended June 30, 2009. Please read it in conjunction with the Agency's financial statements and footnotes, which are presented within this report.

North Dakota Housing Bonds issued by North Dakota Housing Finance Agency are revenue bonds that are neither a general nor a moral obligation of the state but are a general obligation of the Agency.

Financial Highlights

- Mortgage loans receivable has increased \$55,176 to \$824,244 from the previous year. This is the net change of \$152,632 in loans being purchased, \$98,770 of repaid principal, a change in loan premiums/discounts of \$1,743 and an addition of \$429 in mortgage receivable loss reserve.
- Bonds payable decreased by \$77,558 to \$849,586 with \$130,000 new bonds issued and \$206,925 bonds called or matured and \$633 premium/discount amortized.
- The loan from Bank of North Dakota decreased \$821 to \$2,766 with \$45,641 new loans obtained and \$46,462 principal payments made.
- The Agency's net assets increased by \$7,630 to \$105,399 as a result of this year's program operations and financing activities.
- Net income of \$7,630 is down from the prior year by \$1,351 as a result of a decrease in investment income.
- Operating revenues of \$53,802 were up \$265 from the prior year as a net result of more single family mortgages outstanding and less investments resulting in less interest income.
- Operating expenses of \$47,619 were up \$964 as a result of additional interest expense.

Overview of the Financial Statements

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the Basic Financial Statements. The financial statements of the Agency 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. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarizes the Agency's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Agency.

CONDENSED BALANCE SHEETS – JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage</u>
ASSETS				
Unrestricted current assets	\$ 4,412	\$ 4,038	\$ 374	9 %
Restricted current assets	154,498	274,680	(120,182)	(44)
Total current assets	<u>158,910</u>	<u>278,718</u>	<u>(119,808)</u>	<u>(43)</u>
Unrestricted noncurrent assets	3,129	8,192	(5,063)	(62)
Restricted noncurrent assets	828,875	774,513	54,362	7
	<u>832,004</u>	<u>782,705</u>	<u>49,299</u>	<u>6</u>
 Total assets	 <u>\$ 990,914</u>	 <u>\$ 1,061,423</u>	 <u>\$ (70,509)</u>	 <u>(7) %</u>
LIABILITIES				
Current liabilities	\$ 53,729	\$ 140,069	\$ (86,340)	(62) %
Noncurrent liabilities	831,786	823,585	8,201	1
	<u>885,515</u>	<u>963,654</u>	<u>(78,139)</u>	<u>(8)</u>
NET ASSETS				
Invested in capital assets	96	11	85	773
Restricted for debt service	89,748	82,081	7,667	9
Unrestricted	15,555	15,677	(122)	(1)
	<u>105,399</u>	<u>97,769</u>	<u>7,630</u>	<u>8</u>
 Total liabilities and net assets	 <u>\$ 990,914</u>	 <u>\$ 1,061,423</u>	 <u>\$ (70,509)</u>	 <u>(7) %</u>

(continued on next page)

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – YEAR ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage</u>
OPERATING REVENUES				
Mortgage interest income	\$ 45,635	\$ 40,586	\$ 5,049	12 %
Investment income	6,595	11,422	(4,827)	(42)
Fee income	1,572	1,529	43	3
Total revenues	<u>53,802</u>	<u>53,537</u>	<u>265</u>	<u>1</u>
OPERATING EXPENSES				
Interest expense	40,204	39,334	870	2
Agency grants	569	596	(27)	(5)
Amortization of deferred bond financing costs	879	968	(89)	(9)
Administrative and operating expenses	3,547	3,533	14	1
Salaries and benefits	2,416	2,223	193	9
Depreciation	4	1	3	300
Total expenses	<u>47,619</u>	<u>46,655</u>	<u>964</u>	<u>2</u>
OPERATING INCOME	<u>6,183</u>	<u>6,882</u>	<u>(699)</u>	<u>(10)</u>
NONOPERATING REVENUES (EXPENSES)				
HUD grants	12,157	12,156	1	-
Investment income	1,478	2,130	(652)	(31)
HUD grants	(12,157)	(12,156)	(1)	-
	<u>1,478</u>	<u>2,130</u>	<u>(652)</u>	<u>(31)</u>
INCOME BEFORE TRANSFERS	<u>7,661</u>	<u>9,012</u>	<u>(1,351)</u>	<u>(15)</u>
TRANSFERS				
Transfer to Industrial Commission	<u>31</u>	<u>31</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>7,630</u>	<u>8,981</u>	<u>(1,351)</u>	<u>(15)</u>
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>97,769</u>	<u>88,788</u>	<u>8,981</u>	<u>10</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 105,399</u>	<u>\$ 97,769</u>	<u>\$ 7,630</u>	<u>8 %</u>

(continued on next page)

Investment Income

Operating interest income is comprised of the sum of interest earnings on funds held in trust for the Home Mortgage Finance Program. These funds are invested in investment contracts as reported in Notes 2 and 3 to the financial statements. The decrease in interest earnings was due to the decrease in the amount of funds invested.

Non-operating interest income represents earnings on the Agencies investments. These funds are invested in US Treasury securities or the Bank of North Dakota money market and demand accounts. The decrease in interest earnings was due to calling the treasuries on the first optional call date resulting in a write-off of the market value premium.

Budgetary Information

As discussed in Note 1 to the financial statements, the North Dakota Housing Finance Agency is funded under a biennial appropriation approved by the state legislature. The biennial appropriation does not provide any state General Fund dollars. Hence, total Agency appropriation is funded from Agency operations.

Contacting the North Dakota Housing Finance Agency's Financial Management

The information in this report is intended to provide the reader with an overview of the Agency's operations along with the Agency'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 Housing Finance Agency, PO Box 1535, Bismarck, ND 58502-1535.

NORTH DAKOTA HOUSING FINANCE AGENCY
BALANCE SHEETS
JUNE 30, 2009 AND 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 2,932	\$ 2,467
Due from State Agencies	98	123
Receivables		
Interest		
Loans	42	23
Investments	136	215
Due from HUD	157	204
Other	549	558
Current portion of service release premium	452	424
Prepaid expenses	46	24
Total unrestricted current assets	<u>4,412</u>	<u>4,038</u>
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	135,126	256,848
Receivables		
Current portion of loans receivable	15,857	14,603
Interest		
Loans	3,503	3,185
Investments	12	44
Total restricted current assets	<u>154,498</u>	<u>274,680</u>
Total current assets	<u>158,910</u>	<u>278,718</u>
NONCURRENT ASSETS - UNRESTRICTED		
Investments	-	5,304
Service release premium, net	3,033	2,877
Equipment, net	96	11
Total unrestricted noncurrent assets	<u>3,129</u>	<u>8,192</u>
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	808,387	754,465
Investments	13,345	13,262
Deferred bond financing costs, net	7,143	6,786
Total restricted noncurrent assets	<u>828,875</u>	<u>774,513</u>
Total noncurrent assets	<u>832,004</u>	<u>782,705</u>
Total assets	<u>\$ 990,914</u>	<u>\$ 1,061,423</u>

See Notes to Financial Statements

	<u>2009</u>	<u>2008</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	\$ 47	\$ 257
Due to state agencies	36	10
Current portion of rebate due to IRS	497	192
Other	1,044	764
Current portion of compensated absences	133	112
Current portion of bonds payable	19,480	105,675
Loan from Bank of North Dakota	2,766	3,587
Accrued interest	19,149	19,318
Funds held in trust	10,542	10,154
Deferred credits	35	-
Total current liabilities	<u>53,729</u>	<u>140,069</u>
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	68	76
Rebate due to IRS, net of current portion	1,612	2,040
Bonds payable, net of current portion	830,106	821,469
Total noncurrent liabilities	<u>831,786</u>	<u>823,585</u>
Total liabilities	<u>885,515</u>	<u>963,654</u>
NET ASSETS		
Invested in capital assets	96	11
Restricted for debt service	89,748	82,081
Unrestricted	15,555	15,677
Total net assets	<u>105,399</u>	<u>97,769</u>
Total liabilities and net assets	<u>\$ 990,914</u>	<u>\$ 1,061,423</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Mortgage interest income	\$ 45,635	\$ 40,586
Investment income	6,595	11,422
Fee income	1,572	1,529
Total revenues	<u>53,802</u>	<u>53,537</u>
OPERATING EXPENSES		
Interest expense	40,204	39,334
Agency grants	569	596
Amortization of deferred bond financing costs	879	968
Administrative and operating expenses	3,547	3,533
Salaries and benefits	2,416	2,223
Depreciation	4	1
Total expenses	<u>47,619</u>	<u>46,655</u>
OPERATING INCOME	<u>6,183</u>	<u>6,882</u>
NONOPERATING REVENUES (EXPENSES)		
HUD grants	12,157	12,156
Investment income	1,478	2,130
HUD grants	(12,157)	(12,156)
Total nonoperating revenues	<u>1,478</u>	<u>2,130</u>
INCOME BEFORE TRANSFERS	7,661	9,012
TRANSFERS		
Transfer to Industrial Commission	<u>31</u>	<u>31</u>
CHANGE IN NET ASSETS	7,630	8,981
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>97,769</u>	<u>88,788</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 105,399</u>	<u>\$ 97,769</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Receipts from customers	\$ 153,926	\$ 134,034
Payment of grants	(732)	(683)
Payments to service providers		
State agencies	(460)	(135)
Mortgage loan purchases	(151,344)	(195,064)
Other	(6,359)	(8,554)
Payments to employees	(2,410)	(2,219)
Payment of rebate to IRS	(189)	893
Net cash used in operating activities	<u>(7,568)</u>	<u>(71,728)</u>
NONCAPITAL FINANCING ACTIVITIES		
Principal payments on notes and bonds	(254,020)	(178,799)
Proceeds from note borrowings and bond issuance	175,641	309,341
Interest paid on notes and bonds	(40,733)	(37,373)
Payment of bond issue costs	(1,236)	(1,616)
Transfer to Industrial Commission	(31)	(31)
Net cash from (used for) noncapital financing activities	<u>(120,379)</u>	<u>91,522</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	<u>(89)</u>	<u>(11)</u>
INVESTING ACTIVITIES		
Purchase of investments	(5,942)	-
Proceeds from sale of investments	10,918	184
Interest received from investments	1,803	1,978
Net cash from investing activities	<u>6,779</u>	<u>2,162</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(121,257)	21,945
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>259,315</u>	<u>237,370</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 138,058</u>	<u>\$ 259,315</u>
Cash and cash equivalents - unrestricted	\$ 2,932	\$ 2,467
Cash and cash equivalents - restricted	<u>135,126</u>	<u>256,848</u>
Total cash and cash equivalents	<u>\$ 138,058</u>	<u>\$ 259,315</u>

(continued on next page)

STATEMENTS OF CASH FLOWS- page 2

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 6,183	\$ 6,882
Adjustments to reconcile operating income to net cash used in operating activities		
Depreciation	4	1
Amortization		
DBFC and original issue discounts	878	968
Service release premium	(184)	(584)
Rebate due to IRS	(123)	893
Reclassification of interest expense to other activities	40,602	39,810
Changes in assets and liabilities		
Due from HUD	48	(37)
Due from State Agencies	25	(12)
Other receivables	4	21
Prepaid expenses	(22)	11
Loan interest receivable	(337)	(500)
Loans receivable	(55,177)	(121,068)
Due to HUD	(210)	(49)
Due to State Agencies	26	3
Other liabilities	274	70
Compensated absences	13	18
Funds held in trust	388	1,849
Deferred credits and revenues	40	(4)
	<u>40,602</u>	<u>39,810</u>
Net cash used in operating activities	<u>\$ (7,568)</u>	<u>\$ (71,728)</u>
Non-cash disclosure:		
Increase (decrease) in fair value of investments	<u>\$ (246)</u>	<u>\$ 155</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENT OF APPROPRIATIONS
BIENNIUM ENDED JUNE 30, 2009
(In Thousands)

	2007-2009 Appropriations Original	2007-2009 Appropriations As Adjusted	2007-2009 Expenditures	Unexpended Appropriations
ADMINISTRATIVE EXPENSES				
Salaries, wages and benefits	\$ 4,732	\$ 4,732	\$ 4,639	\$ 93
Operating expenses	9,413	9,413	5,697	3,716
Grants, benefits and claims	27,320	27,320	25,478	1,842
Contingency	100	100	100	-
Total	<u>\$ 41,565</u>	<u>\$ 41,565</u>	<u>\$ 35,914</u>	<u>\$ 5,651</u>

- (1) The Agency's total appropriation of \$41,565 consists of funding of \$25,010 from federal funds and \$16,555 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 4 of SB 1014. As of June 30, 2009, the Agency has not used the continuing appropriation.
- (2) This statement includes only those expenditures for which there are appropriations. A reconciliation to the expenses on the statement of revenues, expenses and changes in fund net assets follows (in thousands):

	2009	2008
Total expenditures	\$ 17,819	\$ 18,095
Less: Grants, benefits and claims	(12,726)	(12,752)
Administrative and operating expenses relating to Rental, Homeownership Bonds, and Agency expenses	870	413
Depreciation	4	1
Total administrative and operating expenses and depreciation	<u>\$ 5,967</u>	<u>\$ 5,757</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Housing Finance Agency (Agency) was created in 1980 by an initiated measure. The Agency is authorized, among other things, to make mortgage and construction loans to housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; to purchase qualified mortgage loans from mortgage lenders; and to apply for and receive assistance and subsidies under programs of the federal government.

The Agency is authorized to issue bonds and notes in order to exercise its authorized powers. Bonds and notes issued by the Agency under the 1994 General Resolution are not a debt or liability of the State of North Dakota and the state is not liable for repayment of such obligations. Bonds under the 1994 General Resolution are a general obligation of the Agency.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) statements No. 14, *The Financial Reporting Entity*, the Agency should include all component units over which the Agency 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 Agency.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The North Dakota Housing Finance Agency is included as part of the primary government of the State of North Dakota's reporting entity.

Budgetary Process

The Agency operates through a biennial appropriation provided by the State Legislature. The Agency prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the Agency's financial plan for the next two years. The Agency has a continuous appropriation of any additional income from federal or other funds which may become available to the Agency. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

The State's budgeting system does not include revenues and thus, a Statement of Revenues and Expenses – Budget and Actual cannot be prepared as required by generally accepted accounting principles. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the accrual basis of accounting and includes only those expenses for which an appropriation has been established.

NOTES TO FINANCIAL STATEMENTS

Accounting Standards

The Agency 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. In accordance with GASB Statement No. 20, the Agency 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.

Fund Accounting

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The funds account for the flow of resources of carrying on specific activities in accordance with laws, regulations, or debt restrictions.

The Agency's funds are:

Agency Operating Funds

These funds account for (1) activities related to the development and administration of Agency financial programs, (2) HUD Section 8 Housing Assistance Payment programs, (3) Agency owned assets and (4) any activities of the Agency not applicable to the other funds.

Homeownership Bond Funds

These funds account for the proceeds from the sale of Homeownership Bonds, the debt service requirements of the bond indebtedness, and mortgage loans and assets acquired with bond proceeds to finance single family home ownership.

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 balance sheet. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. When both restricted and unrestricted net assets are available for use, generally it is the Agency's policy to use unrestricted net assets first, then restricted net assets as they are needed. The statements of cash flows present the cash flows for operating activities, investing activities and non-capital financing 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 reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS

Significant Group Concentrations of Credit Risk

All of the Agency's mortgage loans are secured by houses located within the State of North Dakota.

Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with an original 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 statements of revenues, expenditures, and changes in fund net assets.

Funds held by trustees or the Agency under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Agency. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their moneys invested in various debt securities such as U.S. Treasury securities, U.S. Government Agency securities, and investment contracts.

Accumulated Unpaid Vacation and Sick Pay

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Agency. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned based on tenure at the rate of one to a maximum of one and one-half working days per month of employment. There are no limitations on the amount of sick leave that an employee can accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service under chapter 54-52 of the North Dakota Century Code. A liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as required by the Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

Interfund Receivables and Payables

Advances between funds during the year resulting in interfund receivables and payables have been eliminated in the financial statements.

Mortgage Loans Receivable

Mortgage loans receivable are recorded at amounts advanced less principal payments and, in the Homeownership Bond Fund, net of purchase discounts and premiums. Interest income on loans is accrued at the specific rate on the unpaid principal balance.

NOTES TO FINANCIAL STATEMENTS

Deferred Bond Financing Costs

Issuance costs on bonds are amortized using the bonds outstanding method over the life of the bonds for fixed rate series bonds and the effective interest method for variable rate series bonds.

Equipment

Equipment and furnishings are stated at cost, net of accumulated depreciation. Equipment and furnishings with a cost of \$5,000 or more per unit are capitalized and reported in the accompanying financial statements. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from five to ten years.

Funds Held in Trust

These amounts consist of escrow, buy-down and partial payments made by mortgagors on loans serviced by the Agency.

Rebate Due to IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of the earnings that would have been earned had the investments been invested at the composite effective rate equal to the bond yield, with certain exceptions, must be remitted as rebate to the U.S. Treasury once every five years. Rebate is calculated monthly and the liability is adjusted accordingly.

Interest Rate Swaps

North Dakota Housing Finance Agency enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the Agency would not otherwise undertake. Investment income in the Homeownership Bond Fund is recorded as operating income as these revenues are generated from the Agency's operations needed to carry out its statutory purpose.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “all state funds...must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

Deposits of the Agency at June 30, 2009 and 2008 include \$13,545 and \$12,769, respectively, of deposits at the Bank of North Dakota of interest-bearing operating cash under the control of the State Treasurer’s Office as required by law.

The deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. The carrying amounts of the deposits of the Agency at the Bank of North Dakota at June 30, 2009 and 2008 were \$13,382 and \$12,615, respectively.

NOTE 3 – INVESTMENTS

The Agency does not have an investment policy that specifically addresses the risks below. However, the respective bond resolutions permit only investments that will not adversely affect the rating quality of the outstanding bonds. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. At June 30, 2009, the following shows the investments by investment type, amount and the duration (expressed in thousands).

	<u>Total Market Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5-10 Years</u>	<u>More Than 10 Years</u>
Federal National Mortgage Association Agency Bond	\$ 5,625	\$ -	\$ -	\$ 5,625	\$ -
US Treasury Bonds	<u>7,720</u>	<u>-</u>	<u>-</u>	<u>7,720</u>	<u>-</u>
Total Debt Securities	<u>\$ 13,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,345</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed rate investment agreements and the US Treasury Bonds are not rated. The following represents the Agency's ratings as of June 30, 2009 (expressed in thousands):

	S&P Credit Rating AAA	Total Market Value
	<u> </u>	<u> </u>
Federal National Mortgage Association	<u>\$ 5,625</u>	\$ 5,625
US Treasury Bonds		<u>7,720</u>
Total Debt Securities		<u>\$ 13,345</u>

Agency Operating Fund investment securities with a carrying amount of approximately \$13,345 and \$13,262 at June 30, 2009 and 2008, were pledged as requested by rating agencies in conjunction with the 1994 General Resolution and as collateral on bank loans.

The carrying amount of the Agency's deposits and investments are reported on the balance sheets at June 30, 2009 and 2008, as follows:

	<u>2009</u>	<u>2008</u>
Unrestricted:		
Deposits		
Cash and cash equivalents	<u>\$ 2,932</u>	<u>\$ 2,467</u>
Investments	<u>\$ -</u>	<u>\$ 5,304</u>
Restricted:		
Deposits		
Cash and cash equivalents	\$ 135,126	\$ 256,848
Less fixed rate investment agreements reported as cash equivalents	<u>82,243</u>	<u>226,569</u>
Total deposits	<u>\$ 52,883</u>	<u>\$ 30,279</u>

NOTES TO FINANCIAL STATEMENTS

	<u>2009</u>	<u>2008</u>
Investments		
Investments	\$ 13,345	\$ 13,262
Fixed rate investment agreements reported as cash equivalents	<u>82,243</u>	<u>226,569</u>
Total investments	<u>\$ 95,588</u>	<u>\$ 239,831</u>

NOTE 4 - LOANS RECEIVABLE

Loans receivable at June 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Restricted:		
Agency operating funds	\$ 10,548	\$ 6,377
Less current portion	<u>247</u>	<u>179</u>
	<u>\$ 10,301</u>	<u>\$ 6,198</u>
Restricted:		
Homeownership bond funds	\$ 813,696	\$ 762,691
Less current portion	<u>15,610</u>	<u>14,424</u>
	<u>\$ 798,086</u>	<u>\$ 748,267</u>

Mortgage loans are secured by first liens on real property.

Agency and Homeownership mortgage loans are insured by a private primary mortgage insurer, the Federal Housing Administration or guaranteed by the Veterans Administration, USDA-RD, or uninsured with a loan to value of 80% or less.

Interest rates on Agency and Homeownership mortgage loans vary from 0.00% to 11.9% with maturities of such loans ranging from less than one year to 40 years.

Included in Homeownership and Agency mortgage loans are loans totaling \$193 which have been foreclosed on and are owned by the Agency (REO), \$69 in real estate loans in judgment (REJ) and 47 loans totaling \$3,318 were in the foreclosure process at June 30, 2009. At June 30, 2008, Homeownership and Agency mortgage loans included \$141 of REO loans, \$29 in real estate loans in judgment (REJ) and 32 loans totaling \$2,107 were in the foreclosure process. Since such loans are at least partially insured or guaranteed by outside parties, it is anticipated that the Agency will recover substantially all of the unpaid principal and interest on the loans through insurance payments or sale of foreclosed property.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at year-end were eliminated in the financial statements as follows:

	<u>2009</u>	<u>2008</u>
Administration and servicing fees between Rental Fund, Homeownership Fund and Agency Fund	<u>\$ 11,934</u>	<u>\$ 10,056</u>

NOTE 6 - INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

The Agency operates various Department of Housing and Urban Development (HUD) Section 8 rent subsidy programs. Under these programs the Agency draws down, in advance, sufficient funds to cover estimated rent subsidies. An estimate of rents is used because occupancy of rental units is not known until rent payments become due. The use of rent estimates result in over-and-under drawdowns of HUD funds. These amounts cannot be offset and are shown at year-end as intergovernmental receivables and payables as follows:

	<u>2009</u>	<u>2008</u>
Due from HUD	<u>\$ 157</u>	<u>\$ 204</u>
Due to HUD	<u>\$ 47</u>	<u>\$ 257</u>

NOTE 7 - EQUIPMENT

A summary of changes in equipment and accumulated depreciation is as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance, June 30, 2007	\$ 220	\$ 220	<u>\$ -</u>
Additions	12	1	
Disposals	<u>(5)</u>	<u>(5)</u>	
Balance, June 30, 2008	227	216	<u>\$ 11</u>
Additions	89	4	
Disposals	<u>-</u>	<u>-</u>	
Balance, June 30, 2009	<u>\$ 316</u>	<u>\$ 220</u>	<u>\$ 96</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - OTHER RECEIVABLES

A detail of other receivables is as follows:

	<u>2009</u>	<u>2008</u>
Unrestricted:		
Receivable from developers	\$ 456	\$ 486
Accounts receivable	93	72
	<u>\$ 549</u>	<u>\$ 558</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

The Agency had the following transactions with related parties as of June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents - unrestricted		
Bank of North Dakota	<u>\$ 2,840</u>	<u>\$ 2,460</u>
Cash and cash equivalents - restricted		
Bank of North Dakota	<u>\$ 10,542</u>	<u>\$ 10,155</u>
Due from state agencies		
Department of Commerce	\$ 76	\$ 76
Bank of North Dakota	22	47
	<u>\$ 98</u>	<u>\$ 123</u>
Due to state agencies		
Information Technology Department	\$ 22	\$ 6
Attorney General	5	3
Department of Transportation	2	1
Bank of North Dakota	6	-
Office of Management and Budget	1	-
	<u>\$ 36</u>	<u>\$ 10</u>

NOTES TO FINANCIAL STATEMENTS

	<u>2009</u>	<u>2008</u>
Loan payable to the Bank of North Dakota Bank of North Dakota	<u>\$ 2,766</u>	<u>\$ 3,587</u>
Transfers out Industrial Commission	<u>\$ 31</u>	<u>\$ 31</u>
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 361	\$ 460
Information Technology Department		
Telephone	44	29
Data processing	42	44
Attorney General		
Legal fees	23	26
Office of Management and Budget		
Supplies	24	13
Risk management premium	3	3
Department of Transportation		
Travel	10	8
ND State Radio Communications		
NCIC Access	1	1

NOTE 10 - OTHER LIABILITIES

A detail of other liabilities is as follows:

	<u>2009</u>	<u>2008</u>
Remarketing fees	\$ 56	\$ 54
Commitment fees	93	73
Accounts payable	788	544
Trustee fees	107	93
	<u>\$ 1,044</u>	<u>\$ 764</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – COMPENSATED ABSENCES

A summary of compensated absences follows:

	<u>2009</u>	<u>2008</u>
Beginning balance, July 1	\$ 188	\$ 170
Additions	146	133
Reductions	<u>(133)</u>	<u>(115)</u>
Ending balance, June 30	<u>\$ 201</u>	<u>\$ 188</u>
Amounts due within one year	<u>\$ 133</u>	<u>\$ 112</u>

NOTE 12 - BONDS PAYABLE

Change in Bonds Payable

A summary of changes in bonds payable follows:

	<u>Balance 2008</u>	<u>Additions (1)</u>	<u>Reductions (1)</u>	<u>Balance 2009</u>	<u>Amounts Due Within One Year</u>
Homeownership bond funds	<u>\$ 927,144</u>	<u>\$ 130,000</u>	<u>\$ 207,558</u>	<u>\$ 849,586</u>	<u>\$ 19,480</u>
	<u>Balance 2007</u>	<u>Additions (1)</u>	<u>Reductions (1)</u>	<u>Balance 2008</u>	<u>Amounts Due Within One Year</u>
Homeownership bond funds	<u>\$ 798,085</u>	<u>\$ 295,201</u>	<u>\$ 166,142</u>	<u>\$ 927,144</u>	<u>\$ 105,675</u>

(1) Includes accretion of bond discounts and changes in capital appreciation bonds.

Bonds Payable

The bonds of the various Agency funds have been issued to provide financing to purchase mortgage loans and to finance rental housing projects. The bonds are direct obligations of the Agency and are secured by the mortgage loans purchased under the applicable resolutions; the revenues, prepayments, insurance and foreclosure proceeds received related to the mortgage loans; and certain funds and accounts established pursuant to the applicable bond resolutions.

NOTES TO FINANCIAL STATEMENTS

Maturities of Bonds Payable

Maturities of principal and interest on all bonds are as follows:

Years Ending June 30,	Principal	Interest	Total Debt Service
2010	\$ 19,480	\$ 39,685	\$ 59,165
2011	24,735	38,766	63,501
2012	25,130	37,732	62,862
2013	23,520	36,654	60,174
2014	22,540	35,631	58,171
2015-2019	104,150	163,865	268,015
2020-2024	112,980	138,330	251,310
2025-2029	145,910	106,276	252,186
2030-2034	167,355	66,560	233,915
2035-2039	193,255	21,442	214,697
2040-2044	4,290	84	4,374
Discounts	(49)	49	-
Premiums	6,290	(6,290)	-
	\$ 849,586	\$ 678,784	\$ 1,528,370

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2009 and 2008. The term bonds of all bond series have mandatory sinking fund requirements. All of the bonds payable relate to the Agency's Homeownership Bond Fund.

	Interest Rate	2009	2008
Series 1996 C			
Serial bonds 7/1/03 - 7/1/12	4.90 - 5.75	\$ 1,000	\$ 1,255
Term bonds 7/1/17	5.95	450	750
Term bonds 7/1/28	6.10	560	980
Series 1996 D			
Serial bonds 7/1/03 - 1/1/13	4.75 - 5.60	1,255	1,520
Term bonds 1/1/18	5.80	950	1,165
Term bonds 1/1/29	5.90	2,000	2,510
Series 1997 A			
Serial bonds 7/1/03 - 7/1/12	5.00 - 5.90	335	535
Term bonds 7/1/17	6.00	-	95
Term bonds 7/1/27	6.15	-	85
Series 1997 B			
Serial bonds 7/1/03 - 7/1/12	4.80 - 5.50	380	480
Term bonds 7/1/17	5.75	410	530
Term bonds 7/1/28	5.85	695	945

NOTES TO FINANCIAL STATEMENTS

	Interest Rate	2009	2008
Series 1997 C			
Serial bonds 7/1/03 - 7/1/13	4.50 - 5.35	1,485	1,765
Term bonds 7/1/18	5.50	830	955
Term bonds 7/1/29 (not reoffered)	5.55	545	645
Term bonds 7/1/29	5.55	965	1,120
Series 1997 D			
Serial bonds 7/1/03 - 1/1/14	4.10 - 5.00	2,600	3,045
Term bonds 1/1/19	5.15	1,285	1,600
Term bonds 1/1/30	5.25	145	175
Term bonds 1/1/30 (not reoffered)	5.25	2,355	3,005
Series 1997 F			
Serial bonds 7/1/03 - 7/1/13	4.75 - 5.60	600	720
Term bonds 7/1/18	5.80	285	405
Term bonds 1/1/29	5.90	395	570
Series 1997 G			
Serial bonds 7/1/03 - 7/1/13	4.70 - 5.45	1,615	1,935
Term bonds 1/1/29	5.75	965	1,205
Term bonds 7/1/29	5.75	1,245	1,580
Series 1998A			
Serial bonds 7/1/03 - 7/1/13	4.40 - 5.15	1,835	2,190
Term bonds 7/1/18	5.25	895	1,235
Term bonds 1/1/23	4.60	55	55
Term bonds 1/1/28	5.35	485	670
Term bonds 7/1/28	5.35	720	1,060
Series 1998B			
Serial bonds 7/1/03 - 7/1/13	4.45 - 5.30	3,625	4,320
Term bonds 7/1/18	5.45	2,485	2,935
Term bonds 1/1/29 (not reoffered)	5.50	1,025	1,215
Term bonds 7/1/29	5.50	3,135	3,790
Series 1998E			
Serial bonds 7/1/03 - 7/1/13	4.10 - 5.00	1,005	1,210
Term bonds 7/1/18	5.15	715	900
Term bonds 1/1/30	5.25	1,850	2,400
Series 1998F			
Term bonds 7/1/18	5.28	2,320	2,800
Discount		(44)	(58)
Series 1999A			
Serial bonds 7/1/03 - 7/1/14	4.05 - 5.15	3,335	4,130
Term bonds 7/1/19	5.20	2,570	2,735
Term bonds 7/1/29	4.85	-	565
Term bonds 1/1/30	5.25	7,020	7,540
Series 1999B			
Term bonds 7/1/18	6.10	535	765
Discount		(5)	(9)

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NOTES TO FINANCIAL STATEMENTS

	Interest Rate	2009	2008
Series 1999D			
Serial bonds 7/1/03 - 7/1/14	4.75 - 5.80	2,030	2,385
Term bonds 7/1/19	5.95	1,130	1,325
Term bonds 7/1/29	5.40	-	185
Term bonds 1/1/30	6.00	3,565	4,260
Series 2000A			
Term bonds 7/1/30	5.70	-	735
Series 2000C			
Serial bonds 7/1/03 - 7/1/15	4.85 - 5.80	3,265	3,755
Term bonds 7/1/20	6.00	1,875	1,875
Term bonds 1/1/31	5.55	-	1,270
Term bonds 7/1/31	6.15	2,560	4,270
Series 2001A			
Serial bonds 7/1/03 - 7/1/14	3.90 - 5.15	4,605	5,460
Term bonds 7/1/21	5.45	4,745	4,745
Term bonds 7/1/31	4.70	495	2,285
Term bonds 7/1/31 (not reoffered)	5.55	4,105	4,105
Term bonds 1/1/32	5.55	6,855	6,965
Series 2001C			
Serial bonds 7/1/03 - 7/1/13	2.70 - 4.70	2,245	2,725
Term bonds 7/1/22	5.30	3,125	3,420
Term bonds 7/1/33	4.20	1,295	2,360
Term bonds 7/1/33 (not reoffered)	5.40	1,460	1,595
Term bonds 1/1/34	5.40	4,185	4,685
Series 2002A			
Serial bonds 7/1/04 - 7/1/13	3.35 - 5.15	2,635	3,175
Term bonds 1/1/22 (not reoffered)	5.55	1,380	1,390
Term bonds 7/1/22	5.55	2,025	2,040
PAC term bonds 7/1/33	5.00	2,030	3,300
Term bonds 7/1/33 (not reoffered)	5.65	2,690	2,715
Term bonds 1/1/34	5.65	3,210	3,275
Series 2002B			
Serial bonds 7/1/04 - 7/1/13	2.00 - 4.375	3,280	3,940
PAC term bonds 7/1/33	Variable	1,945	2,650
Term bonds 1/1/34	Variable	11,500	13,820
Series 2003A			
Serial bonds 7/1/05 - 7/1/14	1.65 - 4.00	4,085	4,810
PAC term bonds 1/1/34	Variable	3,165	4,325
Term bonds 7/1/34	Variable	8,990	10,385
Term bonds 1/1/35	Variable	12,490	12,490

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NOTES TO FINANCIAL STATEMENTS

	Interest Rate	2009	2008
Series 2003B			
Serial bonds 7/1/04 - 7/1/14	1.45 - 4.75	5,125	6,065
Term bonds 1/1/24 (not reoffered)	5.30	255	490
Term bonds 7/1/24	5.30	695	1,315
PAC term bonds 1/1/34	Variable	3,405	4,655
Term bonds 7/1/34	Variable	14,205	14,205
Term bonds 1/1/35	Variable	6,500	6,500
Series 2004B			
Serial bonds 7/1/05 - 7/1/11	1.60 - 3.70	2,520	3,305
Term bonds 1/1/15	4.25	835	835
Term bonds 7/1/15 (not reoffered)	4.25	695	1,345
PAC term bonds 1/1/35	Variable	5,760	7,615
Term bonds 7/1/35	Variable	12,990	12,990
Term bonds 1/1/36	Variable	10,500	10,500
Series 2004C			
Serial bonds 7/1/05 - 7/1/15	2.15 - 4.90	5,735	6,775
Term bonds 7/1/24	5.20	4,660	4,900
Term bonds 1/1/29	5.25	3,585	3,770
Term bonds 1/1/35 (not reoffered)	5.30	2,810	2,955
PAC term bonds 1/1/35	Variable	23,375	24,940
Term bonds 7/1/35	5.30	2,990	3,140
Series 2005A			
Serial bonds 1/1/06 - 7/1/15	2.90 - 4.60	9,875	14,850
Term bonds 7/1/24	Variable	23,100	23,100
Term bonds 1/1/36	Variable	23,100	23,100
Series 2005CD			
Serial bonds 7/1/06 - 7/1/16	3.05 - 4.45	16,820	20,610
Term bond 1/1/29	4.70	18,915	20,380
Term bond 1/1/36	Variable	12,000	12,000
Series 2006A			
Serial bonds 7/1/07 - 7/1/16	3.85 - 4.75	16,055	17,925
Term bond 7/1/21	4.85	9,385	10,885
Term bond 7/1/26	4.95	13,595	13,915
Term bond 7/1/31	5.00	16,875	17,520
Term bond 1/1/37	5.50	22,760	25,800
Term bond 7/1/37	Variable	30,210	30,210
Premium		1,318	1,388

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NOTES TO FINANCIAL STATEMENTS

	Interest Rate	2009	2008
Series 2007AB			
Serial bonds 7/1/08 - 7/1/17	3.7 - 4.45	11,305	12,630
Term bond 7/1/21	4.60	4,730	4,730
Term bond 7/1/26	4.70	7,430	7,430
Term bond 7/1/31	4.75	9,575	9,575
Term bond 1/1/37	5.50	32,065	33,905
Term bond 7/1/37	4.80	16,430	16,470
Premium		2,621	2,838
Series 2007CD			
Serial bonds 7/1/08 - 7/1/17	3.85 - 4.85	10,930	11,545
Term bond 7/1/22	5.20	6,305	6,350
Term bond 7/1/27	5.25	8,160	8,225
Term bond 1/1/38	5.75	29,140	29,925
Term bond 7/1/38	5.35	28,710	28,955
Term bond 10/8/08	4.25	-	85,000
Premium		1,727	1,854
Series 2008A			
Serial bonds 7/1/09 - 7/1/18	2.60 - 4.9	7,295	7,295
Term bond 7/1/23	5.40	4,670	4,670
Term bond 7/1/28	5.65	6,135	6,135
Term bond 7/1/32	5.80	6,310	6,310
Term bond 7/1/38	5.75	11,890	11,890
Term bond 1/1/39	Variable	13,700	13,700
Premium		624	644
Series 2008B			
Term bond 7/1/38	Variable	15,310	15,850
Series 2008C			
Term bond 4/14/09	3.00	-	56,275
Premium		-	217
Series 2008D			
Serial bonds 7/1/10 - 7/1/18	2.65 - 4.65	21,255	-
Term bond 7/1/23	5.15	16,090	-
Term bond 7/1/28	5.40	20,870	-
Term bond 7/1/33	5.55	27,335	-
Term bond 1/1/39	5.625	22,600	-
Term bond 7/1/39	Variable	21,850	-
		<u>\$ 849,586</u>	<u>\$ 927,144</u>

In prior years, the Agency defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2009 and 2008, \$2,855 and \$3,565 of bonds outstanding are considered defeased. Additionally, the differences between the reacquisition price and the net carrying amount of the old debt were \$49 and \$67 as of June 30, 2009 and 2008. This amount is being amortized over the next 9 years using the bonds outstanding method.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – INTEREST RATE SWAP

Objective of the Interest Rate Swap

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance², the Agency entered into several interest rate swaps in connection with various variable-rate housing bond series¹. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate.⁶

Terms

The bonds and the related swap agreements have a stated maturity date³. Under the swaps, the authority pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR)⁷ plus a fixed percentage⁸. On the other hand, the bond's variable-rate⁹ coupons are determined by the remarketing agent. If for any reason the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution.

Credit Risk

As of June 30, 2009, the Agency did not have any swaps that had a positive fair value. Of the swaps with negative fair value, the Agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on bonds. The swap counterparty has guaranteed all payments and is rated AA+/AA-/AA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreement with Citigroup Global Marketing as a credit enhancement.

Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value¹⁰ of \$13,391 as of June 30, 2009. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

Basis Risk

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate⁶ and the synthetic rate¹² as of June 30, 2009. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

NOTES TO FINANCIAL STATEMENTS

Termination Risk

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination event.” That is, the swap may be terminated if counterparty’s credit quality rating falls below “A3” as issued by Moody’s Investors Service or “A-“ as issued by Fitch Ratings or Standard & Poor’s. The swap may be terminated at any time by the Agency or the counterparty with 30 days written notice up to limits specified in the swap agreement. If the swap or swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of terminations the swap has a negative fair value, the Agency would be liable to the counterparty for payment equal to the swap’s fair value, but in the event the fair value is positive, the counterparty would be liable to the Agency.

1	Bond Series	2002 B	2002 B	2003 A	2003 A
2	Issuance Date	8/28/2002	8/28/2002	5/14/2003	5/14/2003
3	Maturity Date	1/1/2034	7/1/2011	7/1/2034	1/1/2012
4	Notional Amount	11,500	1,750	8,990	3,165
5	Variable-rate Bonds	11,500	1,945	8,990	3,165
6	Fixed Rate	4.470%	2.940%	4.035%	2.463%
7	LIBOR Percentage	68.70%	70.60%	62.50%	62.50%
8	Additional Percentage	0.00%	0.00%	0.44%	0.44%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(330)	(55)	(17)	(74)
11	Percentage of LIBOR	0.21984%	0.22592%	0.64000%	0.64000%
12	Synthetic Rate	4.62016%	3.08408%	3.76500%	2.19300%
13	Actual Synthetic Rate	4.79586%	3.18287%	3.92165%	2.37624%
1	Bond Series	2003 B	2003 B	2004 B	2004 B
2	Issuance Date	8/27/2003	8/27/2003	4/1/2004	4/1/2004
3	Maturity Date	1/1/2012	7/1/2034	1/1/2013	7/1/2035
4	Notional Amount	3,405	14,205	5,760	12,990
5	Variable-rate Bonds	3,405	14,205	5,760	12,990
6	Fixed Rate	3.155%	4.530%	2.620%	3.980%
7	LIBOR Percentage	64.00%	64.00%	63.00%	63.00%
8	Additional Percentage	0.37%	0.37%	0.34%	0.34%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(121)	(775)	(169)	(713)
11	Percentage of LIBOR	0.56980%	0.56980%	0.54160%	0.54160%
12	Synthetic Rate	2.95520%	4.33020%	2.44840%	3.80840%
13	Actual Synthetic Rate	3.09435%	4.47020%	2.62055%	3.98241%

NOTES TO FINANCIAL STATEMENTS

1	Bond Series	2004 C	2005 A	2005 C	2006 A
2	Issuance Date	6/10/2004	4/13/2005	9/21/2005	5/4/2006
3	Maturity Date	1/1/2035	7/1/2024	1/1/2036	7/1/2016
4	Notional Amount	23,375	23,100	12,000	30,210
5	Variable-rate Bonds	23,375	23,100	12,000	30,210
6	Fixed Rate	4.095%	3.870%	3.889%	3.955%
7	LIBOR Percentage	63.00%	62.90%	63.00%	63.00%
8	Additional Percentage	0.34%	0.32%	0.31%	0.31%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(1,449)	(1,381)	(790)	(3,461)
11	Percentage of LIBOR	0.54160%	0.52128%	0.51160%	0.51160%
12	Synthetic Rate	3.92340%	3.71872%	3.74740%	3.81340%
13	Actual Synthetic Rate	4.09701%	3.88206%	3.90756%	3.97857%
1	Bond Series	2008 A	2008 B	2008 D	
2	Issuance Date	2/26/2008	2/26/2008	8/5/2008	
3	Maturity Date	1/1/2017	7/1/2038	7/1/2039	
4	Notional Amount	13,700	15,310	21,850	
5	Variable-rate Bonds	13,700	15,310	21,850	
6	Fixed Rate	3.198%	4.725%	3.919%	
7	LIBOR Percentage	63.00%	100.00%	63.70%	
8	Additional Percentage	0.32%	0.00%	0.20%	
9	Bonds Variable-rate	0.37000%	0.70000%	0.26000%	
10	Fair Value	(840)	(1,282)	(1,934)	
11	Percentage of LIBOR	0.52160%	0.32000%	0.40384%	
12	Synthetic Rate	3.04640%	5.10500%	3.77516%	
13	Actual Synthetic Rate	3.26909%	5.95097%	3.02054%	

Swap Payments and Associated Debt

Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and new swap payments are as follows. Interest calculations were based on rates as of June 30, 2009. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2010	\$ 8,185	\$ 746	\$ 6,798	\$ 15,729
2011	7,495	714	6,579	14,788
2012	6,480	684	6,382	13,546
2013	3,765	663	6,233	10,661
2014	2,720	649	6,124	9,493
2015-2019	63,395	2,551	24,675	90,621
2020-2024	19,180	1,769	18,012	38,961
2025-2029	19,670	1,448	15,108	36,226
2030-2034	41,420	803	8,785	51,008
2035-2039	24,905	188	2,343	27,436
2040	4,290	-	-	4,290
	<u>\$ 201,505</u>	<u>\$ 10,215</u>	<u>\$ 101,039</u>	<u>\$ 312,759</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – LOAN FROM BANK OF NORTH DAKOTA

Changes in Loan from Bank of North Dakota

The following is a summary of changes in loan from the Bank of North Dakota for the years ended June 30, 2009 and 2008:

Balance, June 30, 2007	\$ 2,104
Principal payments on advance from Bank of North Dakota	(15,732)
Loan advance from Bank of North Dakota	<u>17,215</u>
Balance, June 30, 2008	3,587
Principal payments on advance from Bank of North Dakota	(46,462)
Loan advance from Bank of North Dakota	<u>45,641</u>
Balance, June 30, 2009	<u>\$ 2,766</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2009, the line of credit with the Bank of North Dakota is secured by the mortgages funded by the advances, has a credit limit of \$50,000,000 and expires on May 1, 2010. The line of credit bears interest at 70 basis points over the 90 day LIBOR index.

NOTE 15 - PENSION PLAN

The North Dakota Housing Finance Agency participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the North Dakota Housing Finance Agency. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employees' accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

NOTES TO FINANCIAL STATEMENTS

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The North Dakota Housing Finance Agency has implemented a salary reduction agreement and is currently contributing the employees' share. The North Dakota Housing Finance Agency is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The North Dakota Housing Finance Agency's required and actual contributions to NDPERS for the fiscal years ending June 30, 2009, 2008, and 2007 were \$163, \$149, and \$130.

NDPERS issues a publicly available report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502-1657.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Amounts received from federal grantor agencies are subject to audit and adjustment by the federal grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor will be recognized in the year determined.

In the normal course of business, the Agency makes various commitments that are not reflected in the accompanying financial statements. These commitments include commitments to extend credit and the debt reduction required when related loan acquisition funds are not drawn down within prescribed time frames set by the specific bond resolutions.

The Agency's exposure to credit loss is represented by the contractual amount of these commitments. The Agency follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

	<u>2009</u>	<u>2008</u>
Commitments to extend credit	<u>\$ 51,204</u>	<u>\$ 41,177</u>
Lendable proceeds uncommitted	<u>\$ 1,857</u>	<u>\$ 6,589</u>

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 many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Agency, is based on management's credit evaluation of the customer.

The Bond resolutions require that the funds in the loan acquisition accounts be expended within 42 months of the related bond delivery date. Any remaining funds must be used for debt reductions.

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2009 and 2008, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$275 and \$864, respectively.

NOTE 17 - REBATE DUE TO IRS

A detail of the cumulative rebate at June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Series 96BCDE	\$ 42	\$ 41
Series 97BCDE	146	143
Series 97F	2	5
Series 97G	18	20
Series 98A	6	9
Series 98BCD	140	164
Series 98E	16	19
Series 99AC	47	98
Series 99DE	80	79
Series 00AB	-	118
Series 00CD	189	181
Series 01AB	68	62
Series 06A	118	89
Series 07AB	1,027	1,021
Series 07CD	210	177
Series 08C	-	6
	<u>\$ 2,109</u>	<u>\$ 2,232</u>

A summary of the rebate due to IRS follows:

	<u>2009</u>	<u>2008</u>
Beginning balance, July 1	\$ 2,232	\$ 1,339
Additions	65	932
Reductions	<u>(188)</u>	<u>(39)</u>
Ending balance, June 30	<u>\$ 2,109</u>	<u>\$ 2,232</u>
Amounts due within one year	<u>\$ 497</u>	<u>\$ 192</u>

NOTE 18 – FUND NET ASSETS

Based on certain bond covenants, all assets and fund net assets of the Homeownership Bond fund is reserved for debt service.

NOTES TO FINANCIAL STATEMENTS

The Agency operating fund has investment securities pledged under the 1994 General Bond Resolution. As a result, the Agency operating fund has restricted net assets for this amount. All Agency net assets are a reserved general obligation of the bond series. The general obligation (issuer) rating by Moody's Investor Service (a national financial rating service) is influenced by the relationship of Agency net assets to several other financial statement factors and major investors monitor the amount of net assets as additional collateral for the publicly traded bond investments.

NOTE 19 - RISK MANAGEMENT

The Agency 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 per person and \$1,000 per occurrence.

The Agency also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Agency pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of \$2,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Agency, as a contributor to RMF, participates in the North Dakota Workforce Safety & Insurance (NDWSI), an Enterprise Fund of the State of North Dakota. The NDWSI 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.

NOTE 20 – OPERATING LEASES

The Agency leases office space and office equipment classified as operating leases expiring at varying terms over the next ten years. Following is a schedule by years of future minimum rental payments required under the operating leases:

NOTES TO FINANCIAL STATEMENTS

Year ending June 30

2010	\$	224
2011		214
2012		214
2013		214
2014		214
2015-2019		1,066
	\$	<u>2,146</u>

Total rental expense on operating leases was \$118 and \$120 for the years ended June 30, 2009 and 2008.

NOTE 21 - SEGMENT INFORMATION

The Agency maintains two Enterprise Funds which provide loans to finance construction of residential housing and single family homeownership. Segment information for the year ended June 30, 2009, was as follows:

	Agency Operating Funds	Home- ownership Bond Funds	Elimina- tions	Total Enterprise Funds
Balance Sheet				
Current assets - other	\$ 24,269	\$ 146,717	\$ (12,076)	\$ 158,910
Capital assets - net	96	-		96
Noncurrent assets - other	13,334	818,432	142	831,908
Total assets	<u>37,699</u>	<u>965,149</u>	<u>(11,934)</u>	<u>990,914</u>
Current liabilities - other	21,980	43,683	(11,934)	53,729
Noncurrent liabilities - other	68	831,718		831,786
Total liabilities	<u>22,048</u>	<u>875,401</u>	<u>(11,934)</u>	<u>885,515</u>
Invested in capital assets	96	-		96
Net assets - unrestricted	15,555	-		15,555
Net assets - restricted	-	89,748		89,748
Total net assets	<u>15,651</u>	<u>89,748</u>		<u>105,399</u>

NOTES TO FINANCIAL STATEMENTS

Statement of Revenues, Expenses and

Change in Fund Net Assets

Operating revenues

Mortgage interest income	\$ 914	\$ 44,721	\$	\$ 45,635
Investment income	-	6,595		6,595
Fee income	5,390	-	(3,818)	1,572
Depreciation	(4)	-		(4)
Other operating expenses	(6,396)	(45,037)	3,818	(47,615)
Operating income (loss)	(96)	6,279		6,183

Nonoperating revenues (expenses)

HUD grants	12,157	-		12,157
Investment income	1,478	-		1,478
HUD grants	(12,157)	-		(12,157)
Transfers	31	-		31
Change in net assets	1,351	6,279		7,630
Total net assets, beginning of year	15,688	82,081		97,769
Equity transfer in (out)	(1,388)	1,388		-
Total net assets, end of year	15,651	89,748		105,399

Statement of Cash Flows

Net cash used in operating activities	\$ (3,319)	\$ (4,388)	\$ 139	\$ (7,568)
Net cash used for noncapital financing activities	(2,601)	(117,639)	(139)	(120,379)
Net cash used for capital and related financing activities	(89)	-		(89)
Net cash from (used for) investing activities	6,861	(82)		6,779
Change in cash and cash equivalents	852	(122,109)		(121,257)
Cash and cash equivalents, beginning of year	12,621	246,694		259,315
Cash and cash equivalents, end of year	13,473	124,585		138,058

NOTE 22 - SUBSEQUENT EVENT

Subsequent to June 30, 2009, the Agency issued the 2009 Series A and B Housing Finance Program Bonds. The 2009 Series A and B bond issuance was \$130,530.

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING BALANCE SHEETS
JUNE 30, 2009 AND 2008
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds	Total	Elimination	Totals	
					2009	2008
ASSETS						
CURRENT ASSETS - UNRESTRICTED						
Cash and cash equivalents	\$ 2,932	\$ -	\$ 2,932	\$ -	\$ 2,932	\$ 2,467
Due from State Agencies	98		98		98	123
Receivables						
Interest						
Loans	42		42		42	23
Investments	136		136		136	215
Due from HUD	157		157		157	204
Other	9,630		9,630	(1) (9,081)	549	558
Current portion of service release premium, net	452		452		452	424
Prepaid expenses	34	12	46		46	24
Total unrestricted current assets	<u>13,481</u>	<u>12</u>	<u>13,493</u>	<u>(9,081)</u>	<u>4,412</u>	<u>4,038</u>
CURRENT ASSETS - RESTRICTED						
Cash and cash equivalents	10,541	124,585	135,126		135,126	256,848
Receivables						
Current portion of loans receivable	247	15,610	15,857		15,857	14,603
Interest						
Loans		3,503	3,503		3,503	3,185
Investments		12	12		12	44
Other		2,995	2,995	(1) (2,995)	-	-
Total restricted current assets	<u>10,788</u>	<u>146,705</u>	<u>157,493</u>	<u>(2,995)</u>	<u>154,498</u>	<u>274,680</u>
Total current assets	<u>24,269</u>	<u>146,717</u>	<u>170,986</u>	<u>(12,076)</u>	<u>158,910</u>	<u>278,718</u>
NONCURRENT ASSETS - UNRESTRICTED						
Investments					-	5,304
Service release premium, net	3,033		3,033		3,033	2,877
Equipment, net	96		96		96	11
Total unrestricted noncurrent assets	<u>3,129</u>	<u>-</u>	<u>3,129</u>		<u>3,129</u>	<u>8,192</u>
NONCURRENT ASSETS - RESTRICTED						
Loans receivable, net of current portion	10,301	798,086	808,387		808,387	754,465
Investments		13,345	13,345		13,345	13,262
Deferred bond financing costs, net		7,001	7,001	(1) 142	7,143	6,786
Total restricted noncurrent assets	<u>10,301</u>	<u>818,432</u>	<u>828,733</u>	<u>142</u>	<u>828,875</u>	<u>774,513</u>
Total noncurrent assets	<u>13,430</u>	<u>818,432</u>	<u>831,862</u>	<u>142</u>	<u>832,004</u>	<u>782,705</u>
Total assets	<u>\$ 37,699</u>	<u>\$ 965,149</u>	<u>\$ 1,002,848</u>	<u>\$ (11,934)</u>	<u>\$ 990,914</u>	<u>\$ 1,061,423</u>

(continued on next page)

COMBINING BALANCE SHEETS – page 2

	Agency Operating Funds	Homeownership Bond Funds	Total	Elimination	Totals	
					2009	2008
LIABILITIES						
CURRENT LIABILITIES						
Due to HUD	\$ 47	\$	\$ 47	\$	\$ 47	\$ 257
Due to State Agencies	36		36		36	10
Current portion of rebate due to IRS		497	497		497	192
Other	8,415	4,563	12,978	(1) (11,934)	1,044	764
Current portion of compensated absences	133		133		133	112
Current portion of bonds payable		19,480	19,480		19,480	105,675
Loan from Bank of North Dakota	2,766		2,766		2,766	3,587
Accrued interest	6	19,143	19,149		19,149	19,318
Funds held in trust	10,542		10,542		10,542	10,154
Deferred credits	35		35		35	-
Total current liabilities	<u>21,980</u>	<u>43,683</u>	<u>65,663</u>	<u>(11,934)</u>	<u>53,729</u>	<u>140,069</u>
NONCURRENT LIABILITIES						
Compensated absences, net of current portion	68		68		68	76
Rebate due to IRS, net of current portion		1,612	1,612		1,612	2,040
Bonds payable, net of current portion		830,106	830,106		830,106	821,469
Total noncurrent liabilities	<u>68</u>	<u>831,718</u>	<u>831,786</u>	<u>-</u>	<u>831,786</u>	<u>823,585</u>
Total liabilities	<u>22,048</u>	<u>875,401</u>	<u>897,449</u>	<u>(11,934)</u>	<u>885,515</u>	<u>963,654</u>
NET ASSETS						
Invested in capital assets	96		96		96	11
Restricted for debt service		89,748	89,748		89,748	82,081
Unrestricted	15,555		15,555		15,555	15,677
Total net assets	<u>15,651</u>	<u>89,748</u>	<u>105,399</u>	<u>-</u>	<u>105,399</u>	<u>97,769</u>
Total liabilities and net assets	<u>\$ 37,699</u>	<u>\$ 965,149</u>	<u>\$ 1,002,848</u>	<u>\$ (11,934)</u>	<u>\$ 990,914</u>	<u>\$ 1,061,423</u>

(1) Eliminate inter-agency activity

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

	Agency Operating Funds	Home- ownership Bond Funds	Total	Elimina- tions	Totals	
					2009	2008
OPERATING REVENUES						
Mortgage interest income	\$ 914	\$ 44,721	\$ 45,635	\$ -	\$ 45,635	\$ 40,586
Investment income		6,595	6,595		6,595	11,422
Fee income	5,390		5,390	(1) (3,818)	1,572	1,529
Total revenues	<u>6,304</u>	<u>51,316</u>	<u>57,620</u>	<u>(3,818)</u>	<u>53,802</u>	<u>53,537</u>
OPERATING EXPENSES						
Interest expense		40,204	40,204		40,204	39,334
Agency grants	569		569		569	596
Amortization of deferred bond financing costs		879	879		879	968
Administrative and operating expenses	3,411	3,954	7,365	(1) (3,818)	3,547	3,533
Salaries and benefits	2,416		2,416		2,416	2,223
Depreciation	4		4		4	1
Total expenses	<u>6,400</u>	<u>45,037</u>	<u>51,437</u>	<u>(3,818)</u>	<u>47,619</u>	<u>46,655</u>
OPERATING INCOME (LOSS)	<u>(96)</u>	<u>6,279</u>	<u>6,183</u>	<u>-</u>	<u>6,183</u>	<u>6,882</u>
NONOPERATING REVENUE (EXPENSES)						
HUD grants	12,157		12,157		12,157	12,156
Investment income	1,478		1,478		1,478	2,130
HUD grants	(12,157)		(12,157)		(12,157)	(12,156)
Total nonoperating revenues	<u>1,478</u>	<u>-</u>	<u>1,478</u>	<u>-</u>	<u>1,478</u>	<u>2,130</u>
INCOME BEFORE TRANSFERS	<u>1,382</u>	<u>6,279</u>	<u>7,661</u>	<u>-</u>	<u>7,661</u>	<u>9,012</u>

(continued on next page)

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – page 2

	Agency Operating Funds	Home- ownership Bond Funds	Total	Elimina- tions	Totals	
					2009	2008
TRANSFERS OUT						
Transfer to Industrial Commission	31		31		31	31
CHANGE IN NET ASSETS	1,351	6,279	7,630	-	7,630	8,981
TOTAL NET ASSETS, BEGINNING OF YEAR	15,688	82,081	97,769		97,769	88,788
EQUITY TRANSFER IN (OUT)	(1,388)	1,388				
TOTAL NET ASSETS, END OF YEAR	\$ 15,651	\$ 89,748	\$ 105,399	\$ -	\$ 105,399	\$ 97,769

(1) To eliminate inter-agency activity

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	Agency	Home-	Total	Elimination	Totals	
	Operating	ownership			2009	2008
	Funds	Bond Funds				
OPERATING ACTIVITIES						
Receipts from customers	\$ 51,082	\$ 144,628	\$ 195,710	\$ (41,784)	\$ 153,926	\$ 134,034
Payments of grants	(732)		(732)		(732)	(683)
Payments to service providers						
State agencies	(460)		(460)		(460)	(135)
Mortgage loan purchases	(49,929)	(145,215)	(195,144)	43,800	(151,344)	(195,064)
Other	(870)	(3,612)	(4,482)	(1,877)	(6,359)	(8,554)
Payments to employees	(2,410)		(2,410)		(2,410)	(2,219)
Payment of rebate to IRS		(189)	(189)		(189)	893
Net cash used in operating activities	<u>(3,319)</u>	<u>(4,388)</u>	<u>(7,707)</u>	<u>139</u>	<u>(7,568)</u>	<u>(71,728)</u>
NONCAPITAL FINANCING						
ACTIVITIES						
Principal payments on notes and bonds	(46,462)	(207,558)	(254,020)		(254,020)	(178,799)
Proceeds from note borrowings						
and bond issuance	45,641	130,000	175,641		175,641	309,341
Interest paid on notes and bonds	(360)	(40,373)	(40,733)		(40,733)	(37,373)
Payment of bond issue costs		(1,097)	(1,097)	(139)	(1,236)	(1,616)
Transfer to Industrial Commission	(31)		(31)		(31)	(31)
Interfund transfer in (out)	<u>(1,389)</u>	<u>1,389</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash from (used for) noncapital financing activities	<u>(2,601)</u>	<u>(117,639)</u>	<u>(120,240)</u>	<u>(139)</u>	<u>(120,379)</u>	<u>91,522</u>

(continued on next page)

COMBINING STATEMENTS OF CASH FLOWS – page 2

	Agency Operating Funds	Home- ownership Bond Funds	Total	Elimination	Totals	
					2009	2008
CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of equipment	(89)		(89)		(89)	(11)
INVESTING ACTIVITIES						
Purchase of investments	(434)	(5,508)	(5,942)		(5,942)	-
Proceeds from sale of investments	5,508	5,410	10,918		10,918	184
Interest received from investments	1,787	16	1,803		1,803	1,978
Net cash from (used for) investing activities	6,861	(82)	6,779	-	6,779	2,162
CHANGE IN CASH AND CASH EQUIVALENTS	852	(122,109)	(121,257)	-	(121,257)	21,945
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,621	246,694	259,315		259,315	237,370
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,473</u>	<u>\$ 124,585</u>	<u>\$ 138,058</u>	<u>\$ -</u>	<u>\$ 138,058</u>	<u>\$ 259,315</u>

(continued on next page)

COMBINING STATEMENTS OF CASH FLOWS – page 3

	Agency	Home-	Total	Elimination	Totals	
	Operating	ownership			2009	2008
	Funds	Bond Funds				
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ (96)	\$ 6,279	\$ 6,183	\$	\$ 6,183	\$ 6,882
Adjustments to reconcile operating income to net cash (used in) from operating activities						
Depreciation	4		4		4	1
Amortization						
DBFC and original issue discounts		878	878		878	968
Service release premiums	(184)		(184)		(184)	(584)
Rebate due to IRS		(123)	(123)		(123)	893
Reclassification of investment expense to other activities	366	40,236	40,602		40,602	39,810
Changes in assets and liabilities						
Due from HUD	48		48		48	(37)
Due from State Agencies	25		25		25	(12)
Other receivables	(1,373)	(640)	(2,013)	2,017	4	21
Prepaid expenses	(17)	(5)	(22)		(22)	11
Loan interest receivable	(19)	(318)	(337)		(337)	(500)
Loans receivable	(4,171)	(51,006)	(55,177)		(55,177)	(121,068)
Due to HUD	(210)		(210)		(210)	(49)
Due to State Agencies	26		26		26	3
Other liabilities	1,841	311	2,152	(1,878)	274	70
Compensated absences	13		13		13	18
Funds held in trust	388		388		388	1,849
Deferred credits and revenues	40		40		40	(4)
Net cash (used in) from operating activities	<u>\$ (3,319)</u>	<u>\$ (4,388)</u>	<u>\$ (7,707)</u>	<u>\$ 139</u>	<u>\$ (7,568)</u>	<u>\$ (71,728)</u>
Non-cash disclosures						
Increase (decrease) in fair value of investments	<u>\$ (230)</u>	<u>\$ (16)</u>	<u>\$ (246)</u>		<u>\$ (246)</u>	<u>\$ 155</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
SEGMENT INFORMATION
JUNE 30, 2009 AND 2008
(In Thousands)

FINANCIAL DATA	<u>2009</u>	<u>2008</u>
<u>Total Assets</u>		
Agency Fund	\$ 37,699	\$ 36,453
1994 General Pledged	13,345	13,076
1994 D/E Homeownership Fund	5,858	6,104
1996 C Homeownership Fund	4,416	5,263
1996 D Homeownership Fund	4,540	5,386
1997 A Homeownership Fund	1,381	1,707
1997 B Homeownership Fund	1,752	2,200
1997 C Homeownership Fund	4,780	5,259
1997 D Homeownership Fund	7,159	8,544
1997 F Homeownership Fund	1,972	2,333
1997 G Homeownership Fund	5,222	5,994
1998 A Homeownership Fund	5,419	6,503
1998 B Homeownership Fund	12,370	14,331
1998 E Homeownership Fund	4,866	5,745
1998 F Homeownership Fund	1,251	1,577
1999 A Homeownership Fund	14,847	16,838
1999 B Homeownership Fund	763	893
1999 D Homeownership Fund	8,061	9,467
2000 A Homeownership Fund	10,509	11,702
2000 C Homeownership Fund	12,531	14,046
2001 A Homeownership Fund	22,446	25,104
2001 C Homeownership Fund	13,068	15,541
2002 A Homeownership Fund	15,037	16,896
2002 B Homeownership Fund	17,344	21,294
2002 C Homeownership Fund	21,945	24,780
2003 A Homeownership Fund	31,139	34,062
2003 B Homeownership Fund	33,531	36,277
2004 B Homeownership Fund	35,897	38,726
2004 C Homeownership Fund	45,360	48,476
2005 A Homeownership Fund	61,129	64,259
2005 C Homeownership Fund	51,050	56,058
2006 A Homeownership Fund	115,716	122,846
2007 AB Homeownership Fund	89,173	92,274
2007 CD Homeownership Fund	88,955	177,131
2008 A Homeownership Fund	52,010	51,153
2008 B Homeownership Fund	15,768	16,233
2008 C Homeownership Fund	194	56,943
2008 D Homeownership Fund	134,345	-
	<u>\$ 1,002,848</u>	<u>\$ 1,071,474</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

SEGMENT INFORMATION – page 2

	<u>2009</u>	<u>2008</u>
Bonds Payable, Net of Discount		
1996 C Homeownership Fund	\$ 2,010	\$ 2,985
1996 D Homeownership Fund	4,205	5,195
1997 A Homeownership Fund	335	715
1997 B Homeownership Fund	1,485	1,955
1997 C Homeownership Fund	3,825	4,485
1997 D Homeownership Fund	6,385	7,825
1997 F Homeownership Fund	1,280	1,695
1997 G Homeownership Fund	3,825	4,720
1998 A Homeownership Fund	3,990	5,210
1998 B Homeownership Fund	10,270	12,260
1998 E Homeownership Fund	3,570	4,510
1998 F Homeownership Fund	2,276	2,741
1999 A Homeownership Fund	12,925	14,970
1999 B Homeownership Fund	530	756
1999 D Homeownership Fund	6,725	8,155
2000 A Homeownership Fund	-	735
2000 C Homeownership Fund	7,700	11,170
2001 A Homeownership Fund	20,805	23,560
2001 C Homeownership Fund	12,310	14,785
2002 A Homeownership Fund	13,970	15,895
2002 B Homeownership Fund	16,725	20,410
2003 A Homeownership Fund	28,730	32,010
2003 B Homeownership Fund	30,185	33,230
2004 B Homeownership Fund	33,300	36,590
2004 C Homeownership Fund	43,155	46,480
2005 A Homeownership Fund	56,075	61,050
2005 C Homeownership Fund	47,735	52,990
2006 A Homeownership Fund	110,198	117,643
2007 AB Homeownership Fund	84,156	87,578
2007 CD Homeownership Fund	84,972	171,854
2008 A Homeownership Fund	50,624	50,645
2008 B Homeownership Fund	15,310	15,850
2008 C Homeownership Fund	-	56,492
2008 D Homeownership Fund	130,000	-
	<u>\$ 849,586</u>	<u>\$ 927,144</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

SEGMENT INFORMATION – page 3

	<u>2009</u>	<u>2008</u>
Net Assets (Deficits)		
Reserved for Debt Service		
1994 General Pledged	\$ 13,345	\$ 13,076
1994 D/E Homeownership Fund	4,376	4,955
1996 C Homeownership Fund	2,287	2,128
1996 D Homeownership Fund	194	18
1997 A Homeownership Fund	1,029	964
1997 B Homeownership Fund	70	35
1997 C Homeownership Fund	827	625
1997 D Homeownership Fund	581	484
1997 F Homeownership Fund	643	572
1997 G Homeownership Fund	1,246	1,091
1998 A Homeownership Fund	1,292	1,115
1998 B Homeownership Fund	1,622	1,504
1998 E Homeownership Fund	1,169	1,078
1998 F Homeownership Fund	(1,094)	(1,248)
1999 A Homeownership Fund	1,474	1,309
1999 B Homeownership Fund	214	109
1999 D Homeownership Fund	1,018	945
2000 A Homeownership Fund	10,466	10,777
2000 C Homeownership Fund	4,367	2,313
2001 A Homeownership Fund	907	729
2001 C Homeownership Fund	392	325
2002 A Homeownership Fund	616	486
2002 B Homeownership Fund	179	324
2002 C Homeownership Fund	21,945	24,780
2003 A Homeownership Fund	1,955	1,414
2003 B Homeownership Fund	2,695	2,292
2004 B Homeownership Fund	2,002	1,399
2004 C Homeownership Fund	1,070	808
2005 A Homeownership Fund	4,056	1,909
2005 C Homeownership Fund	2,111	1,767
2006 A Homeownership Fund	2,388	1,896
2007 AB Homeownership Fund	1,662	1,260
2007 CD Homeownership Fund	1,308	835
2008 A Homeownership Fund	104	(144)
2008 B Homeownership Fund	(27)	151
2008 C Homeownership Fund	194	-
2008 D Homeownership Fund	1,065	-
Unrestricted		
Agency Fund	<u>15,651</u>	<u>15,688</u>
	<u>\$ 105,399</u>	<u>\$ 97,769</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

SEGMENT INFORMATION – page 4

OPERATING DATA

	<u>2009</u>	<u>2008</u>
Revenues		
Agency Fund	\$ 6,304	\$ 7,314
1994 D/E Homeownership Fund	265	328
1996 C Homeownership Fund	313	357
1996 D Homeownership Fund	257	303
1997 A Homeownership Fund	100	118
1997 B Homeownership Fund	109	129
1997 C Homeownership Fund	303	341
1997 D Homeownership Fund	429	514
1997 F Homeownership Fund	142	156
1997 G Homeownership Fund	346	394
1998 A Homeownership Fund	339	399
1998 B Homeownership Fund	747	879
1998 E Homeownership Fund	278	319
1998 F Homeownership Fund	91	119
1999 A Homeownership Fund	866	948
1999 B Homeownership Fund	47	63
1999 D Homeownership Fund	511	620
2000 A Homeownership Fund	635	785
2000 C Homeownership Fund	825	954
2001 A Homeownership Fund	1,384	1,577
2001 C Homeownership Fund	756	909
2002 A Homeownership Fund	945	1,111
2002 B Homeownership Fund	967	1,197
2002 C Homeownership Fund	1,402	1,625
2003 A Homeownership Fund	1,467	1,715
2003 B Homeownership Fund	1,697	1,959
2004 B Homeownership Fund	1,774	2,041
2004 C Homeownership Fund	2,493	2,771
2005 A Homeownership Fund	2,677	3,015
2005 C Homeownership Fund	2,466	2,851
2006 A Homeownership Fund	6,035	6,440
2007 AB Homeownership Fund	4,537	7,707
2007 CD Homeownership Fund	6,113	7,580
2008 A Homeownership Fund	2,644	525
2008 B Homeownership Fund	866	220
2008 C Homeownership Fund	1,112	373
2008 D Homeownership Fund	5,378	
	<u>\$ 57,620</u>	<u>\$ 58,656</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

SEGMENT INFORMATION – page 5

	<u>2009</u>	<u>2008</u>
Interest Expense		
1996 C Homeownership Fund	\$ 136	\$ 188
1996 D Homeownership Fund	258	310
1997 A Homeownership Fund	27	47
1997 B Homeownership Fund	94	114
1997 C Homeownership Fund	215	258
1997 D Homeownership Fund	343	420
1997 F Homeownership Fund	83	102
1997 G Homeownership Fund	227	274
1998 A Homeownership Fund	225	284
1998 B Homeownership Fund	573	689
1998 E Homeownership Fund	194	245
1998 F Homeownership Fund	144	174
1999 A Homeownership Fund	684	794
1999 B Homeownership Fund	39	59
1999 D Homeownership Fund	412	510
2000 A Homeownership Fund	-	60
2000 C Homeownership Fund	475	704
2001 A Homeownership Fund	1,138	1,321
2001 C Homeownership Fund	637	759
2002 A Homeownership Fund	772	895
2002 B Homeownership Fund	1,002	943
2003 A Homeownership Fund	780	1,132
2003 B Homeownership Fund	1,135	1,420
2004 B Homeownership Fund	1,002	1,328
2004 C Homeownership Fund	1,988	2,198
2005 A Homeownership Fund	1,685	2,299
2005 C Homeownership Fund	2,107	1,805
2006 A Homeownership Fund	5,162	5,555
2007 AB Homeownership Fund	3,859	6,857
2007 CD Homeownership Fund	5,317	6,395
2008 A Homeownership Fund	2,372	618
2008 B Homeownership Fund	973	204
2008 C Homeownership Fund	1,110	373
2008 D Homeownership Fund	5,036	-
	<u>\$ 40,204</u>	<u>\$ 39,334</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

SEGMENT INFORMATION – page 6

	<u>2009</u>	<u>2008</u>
Change in net assets		
Agency Fund	\$ 1,351	\$ 3,144
1994 D/E Homeownership Fund	256	318
1996 C Homeownership Fund	151	128
1996 D Homeownership Fund	(29)	(53)
1997 A Homeownership Fund	63	56
1997 B Homeownership Fund	1	(2)
1997 C Homeownership Fund	62	38
1997 D Homeownership Fund	42	22
1997 F Homeownership Fund	47	35
1997 G Homeownership Fund	90	73
1998 A Homeownership Fund	82	60
1998 B Homeownership Fund	89	60
1998 E Homeownership Fund	53	28
1998 F Homeownership Fund	(59)	(66)
1999 A Homeownership Fund	99	19
1999 B Homeownership Fund	4	(4)
1999 D Homeownership Fund	53	32
2000 A Homeownership Fund	594	645
2000 C Homeownership Fund	268	127
2001 A Homeownership Fund	127	44
2001 C Homeownership Fund	43	29
2002 A Homeownership Fund	95	75
2002 B Homeownership Fund	(183)	35
2002 C Homeownership Fund	1,352	1,568
2003 A Homeownership Fund	489	255
2003 B Homeownership Fund	356	196
2004 B Homeownership Fund	540	339
2004 C Homeownership Fund	205	105
2005 A Homeownership Fund	593	114
2005 C Homeownership Fund	57	589
2006 A Homeownership Fund	303	17
2007 AB Homeownership Fund	277	291
2007 CD Homeownership Fund	391	836
2008 A Homeownership Fund	7	(144)
2008 B Homeownership Fund	(186)	(28)
2008 C Homeownership Fund	2	-
2008 D Homeownership Fund	(55)	-
	<u>\$ 7,630</u>	<u>\$ 8,981</u>

Note: Interfund receivables and payables have not been eliminated in the segment information.

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT – SECTION 8 FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2009

Line Item #	Description	NC S/R Section 8 Programs	Section 8 Moderate Rehabilitation Single Room Occupancy	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0001	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0002	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0003	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0004	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0005
Assets								
111	Cash - Unrestricted	223,363	8,016	3,869	2,261	8,860	2	4,409
113	Cash - Other Restricted	4	-	-	-	9,633	-	-
100	Total Cash	223,367	8,016	3,869	2,261	18,493	2	4,409
122	Accounts Receivable - HUD Other Projects	98,638	3,488	23,471	4,819	-	7,325	3,692
125	Accounts Receivable - Miscellaneous	150	37	94	39	38	20	26
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-
120	Total Receivables, net of allowance for doubtful	98,788	3,525	23,565	4,858	38	7,345	3,718
142	Prepaid Expenses and Other Assets	516	6	15	6	6	3	4
150	Total Current Assets	322,671	11,547	27,449	7,125	18,537	7,350	8,131
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-	-	-
190	Total Assets	322,671	11,547	27,449	7,125	18,537	7,350	8,131
Liabilities and Equity								
311	Bank Overdraft	-	-	-	-	-	1,133	-
312	Accounts Payable <= 90 Days	38,191	738	1,875	769	753	400	523
331	Accounts Payable - HUD PHA Programs	5	-	-	-	9,633	-	-
310	Total Current Liabilities	38,196	738	1,875	769	10,386	1,533	523
350	Total Noncurrent Liabilities	-	-	-	-	-	-	-
300	Total Liabilities	38,196	738	1,875	769	10,386	1,533	523
508	Total Contributed Capital	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	-	-	-
512.1	Unrestricted Net Assets	284,475	10,809	25,574	6,356	8,151	5,817	7,608
513	Total Equity/Net Assets	284,475	10,809	25,574	6,356	8,151	5,817	7,608
600	Total Liabilities and Equity/Net Assets	322,671	11,547	27,449	7,125	18,537	7,350	8,131
Revenue								
705	Total Tenant Revenue	-	-	-	-	-	-	-
706	HUD PHA Operating Grants	11,336,281	54,676	238,619	72,824	62,452	65,967	87,079
711	Investment Income - Unrestricted	-	13	35	14	14	7	10
120	Investment Income - Restricted	436	1	3	1	1	1	1
700	Total Revenue	11,336,717	54,690	238,657	72,839	62,467	65,975	87,090
Expenses								
911	Administrative Salaries	295,236	4,920	12,503	5,124	5,022	2,665	3,484
912	Auditing Fees	7,207	135	345	141	138	73	96
915	Employee Benefit Contribution - Administrative	99,913	1,659	4,214	1,727	1,692	898	1,174
916	Other Operating - Administrative	212,684	5,413	13,756	5,638	5,526	2,931	3,835
969	Total Operating Expenses	615,040	12,127	30,818	12,630	12,378	6,567	8,589
970	Excess Operating Revenue Over Operating Expenses	10,721,677	42,563	207,839	60,209	50,089	59,408	78,501
973	Housing Assistance Payments	10,722,891	38,329	197,502	57,002	46,977	57,123	75,513
900	Total Expenses	11,337,931	50,456	228,320	69,632	59,355	63,690	84,102
1010	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(1,214)	4,234	10,337	3,207	3,112	2,285	2,988
Memo Account Information								
1102	Debt Principal Payment - Enterprise Funds	-	-	-	-	-	-	-
1103	Beginning Equity	285,689	6,575	15,237	3,149	5,039	3,532	4,620
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-	-	-
1113	Maximum Annual Contributions Commitment (per ACC)	15,835,092	100,365	176,657	63,662	64,167	75,983	95,432
1114	Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 Months	-	-	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	10,783,408	295,516	-	-	51,146	13,469	17,165
1116	Total Annual Contributions Available	26,618,500	395,881	176,657	63,662	115,313	89,452	112,597
1120	Unit Months Available	40,268	288	732	300	294	156	204
1121	Number of Unit Months Leased	40,268	288	732	300	294	156	204

(continued on next page)

HOUSING AND URBAN DEVELOPMENT – SECTION 8 FINANCIAL DATA SCHEDULE – page 2

Line Item #	Description	Lower Income Housing Assistance				
		Program Section 8 Moderate Rehabilitate ND901MR0006	Program Section 8 Moderate Rehabilitate ND901MR0008	Program Section 8 Moderate Rehabilitate ND901MR0009	Program Section 8 Moderate Rehabilitate ND901MR0010	Program Section 8 Moderate Rehabilitate ND901MR0011
Assets						
111	Cash - Unrestricted	32,460	2,648	18,570	-	5,099
113	Cash - Other Restricted	34,607	342	-	-	2,148
100	Total Cash	67,067	2,990	18,570	-	7,247
122	Accounts Receivable - HUD Other Projects	-	3,065	967	11,182	-
125	Accounts Receivable - Miscellaneous	178	19	56	28	28
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
120	Total Receivables, net of allowance for doubtful	178	3,084	1,023	11,210	28
142	Prepaid Expenses and Other Assets	29	3	9	5	5
150	Total Current Assets	67,274	6,077	19,602	11,215	7,280
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-
190	Total Assets	67,274	6,077	19,602	11,215	7,280
Liabilities and Equity						
311	Bank Overdraft	-	-	-	1,881	-
312	Accounts Payable <= 90 Days	3,536	369	1,107	553	553
331	Accounts Payable - HUD PHA Programs	34,607	342	-	-	2,148
310	Total Current Liabilities	38,143	711	1,107	2,434	2,701
350	Total Noncurrent Liabilities	-	-	-	-	-
300	Total Liabilities	38,143	711	1,107	2,434	2,701
508	Total Contributed Capital	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	-
512.1	Unrestricted Net Assets	29,131	5,366	18,495	8,781	4,579
513	Total Equity/Net Assets	29,131	5,366	18,495	8,781	4,579
600	Total Liabilities and Equity/Net Assets	67,274	6,077	19,602	11,215	7,280
Revenue						
705	Total Tenant Revenue	-	-	-	-	-
706	HUD PHA Operating Grants	225,545	46,021	96,275	102,528	43,172
711	Investment Income - Unrestricted	66	7	21	10	10
120	Investment Income - Restricted	6	1	2	1	1
700	Total Revenue	225,617	46,029	96,298	102,539	43,183
Expenses						
911	Administrative Salaries	23,571	2,460	7,379	3,689	3,689
912	Auditing Fees	650	68	203	102	102
915	Employee Benefit Contribution - Administrative	7,944	829	2,487	1,243	1,243
916	Other Operating - Administrative	25,936	2,706	8,120	4,060	4,059
969	Total Operating Expenses	58,101	6,063	18,189	9,094	9,093
970	Excess Operating Revenue Over Operating Expenses	167,516	39,966	78,109	93,445	34,090
973	Housing Assistance Payments	152,768	37,857	71,757	90,281	31,780
900	Total Expenses	210,869	43,920	89,946	99,375	40,873
1010	Total Other Financing Sources (Uses)	-	-	-	-	-
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	14,748	2,109	6,352	3,164	2,310
Memo Account Information						
1102	Debt Principal Payment - Enterprise Funds	-	-	-	-	-
1103	Beginning Equity	14,383	3,257	12,143	5,617	2,269
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-
1113	Maximum Annual Contributions Commitment (per ACC)	197,621	46,021	-	102,528	-
1114	Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 Months	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	87,313	-	26,597	-	88,213
1116	Total Annual Contributions Available	284,934	46,021	26,597	102,528	88,213
1120	Unit Months Available	1,380	144	432	216	216
1121	Number of Unit Months Leased	1,380	144	432	216	216

**NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-1

<u>Federal Grantor/Federal Agency /Pass through Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>		
Rural Housing Service Division		
Very Low to Moderate Income Housing Loans	10.410	<u>\$ 20,024,974</u>
<u>Department of Housing and Urban Development</u>		
Federal Housing Commission Division		
Direct programs		
Mortgage Insurance - Homes	14.117	* 85,218,696
Rent Supplements - Rental Housing for Lower Income Families	14.149	11,337,931
Housing Counseling Assistance Program	14.169	178,723
Lower Income Housing Assistance Program -		
Section 8 Moderate Rehabilitation	14.856	990,082
Section 8 Moderate Rehabilitation - Single room occupancy	14.249	<u>50,456</u>
Section 8 Cluster		1,040,538
Community Planning and Development Division		
Pass through from ND Department of Commerce		
HOME Investment Partnership Program	14.239	471,596
Community Development Block Grants	14.228	<u>36,636</u>
Total Department of Housing and Urban Development		<u>98,284,120</u>
<u>Department of Veterans Affairs</u>		
Veterans Benefits Administration Division		
Veterans Housing - Guaranteed and Insured Loans	64.114	<u>10,968,631</u>
TOTAL		<u><u>\$ 129,277,725</u></u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE 2 - LOAN GUARANTEES AND INSURANCE

The following is the balance of federal loan guarantees and insurance outstanding as of June 30, 2009 and 2008.

		<u>2009</u>	<u>2008</u>
Very Low to Moderate Income Housing Loans	10.410	\$ 87,754,535	\$ 75,751,505
Mortgage Insurance - Homes	14.117	446,728,247	411,045,931
Veterans Housing - Guaranteed and Insured Loans	64.114	59,054,118	55,236,380

* Denotes major program

**NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-2

FINDINGS - NONE

**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***

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the **North Dakota Housing Finance Agency** as of and for the year ended June 30, 2009, and have issued our report thereon dated October 19, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **North Dakota Housing Finance Agency's** internal control over financial reporting as a basis for designing our auditing procedures 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 **North Dakota Housing Finance Agency's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota Housing Finance Agency's** internal control over financial reporting.

A control deficiency 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 and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **North Dakota Housing Finance Agency's** financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Advisory Board, management, and the federal awarding agencies 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
October 19, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of the **North Dakota Housing Finance Agency** with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **North Dakota Housing Finance Agency's** major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **North Dakota Housing Finance Agency's** management. Our responsibility is to express an opinion on the **North Dakota Housing Finance Agency's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **North Dakota Housing Finance Agency's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **North Dakota Housing Finance Agency's** compliance with those requirements.

In our opinion, the **North Dakota Housing Finance Agency** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the **North Dakota Housing Finance Agency** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **North Dakota Housing Finance Agency's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota Housing Finance Agency's** internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Advisory Board, management, and the federal awarding agencies 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
October 19, 2009

**NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-5

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion of the financial statements of the **North Dakota Housing Finance Agency**.
2. No significant deficiencies were disclosed by our audit of the financial statements of the **North Dakota Housing Finance Agency**.
3. No instances of noncompliance material to the financial statements of the **North Dakota Housing Finance Agency**, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for the **North Dakota Housing Finance Agency** expresses an unqualified opinion on all major Federal award programs.
5. No significant deficiencies were disclosed relative to the major federal award programs for the **North Dakota Housing Finance Agency**.
6. The audit disclosed no audit findings required to be reported under Section 510(a) of OMB Circular A-133.
7. The major program tested was Mortgage Insurance – Homes, CFDA# 14.117.
8. The threshold for distinguishing a Type A program was \$3,000,000.
9. The **North Dakota Housing Finance Agency** qualified as a low-risk auditee for the year ended June 30, 2009.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**NORTH DAKOTA HOUSING FINANCE AGENCY
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2009**

The Industrial Commission
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 regarding the June 30, 2009 audit of the Agency are as follows:

Audit Report Communications:

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

Unqualified

2. Was there compliance with statutes, laws, rules and regulations under which the Authority 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 Authority?

No

5. Was action taken on prior audit findings and recommendations?

Yes.

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

Yes, a separate management letter has been issued and is attached following page 61. Please refer to this document for all recommendations and agency responses.

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, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these 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.

The Agency does not consult with any other accountants regarding auditing or accounting matters.

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.

Housing and Development Software, Dynamic Loan Systems, Loan Tracking, and the general ledger accounting system developed by the Agency are considered to be significant information technology systems critical to the operation of the Agency. We would not consider these to be high risk based upon our inspection and understanding of the Agency's system of internal control over these significant information technology systems.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Advisory Board, management, and the federal awarding agencies 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 19, 2009