



Financial Statements
June 30, 2012 and 2011

North Dakota Housing Finance Agency

North Dakota Housing Finance Agency

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June 30, 2012 and 2011

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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, 2012 and 2011, 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 audits.

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, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Housing Finance Agency as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Housing Finance Agency's financial statements as a whole. The accompanying supplementary information on pages 41 through 52 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 53 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 financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2012

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 years ended June 30, 2012, 2011 and 2010. 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 mortgage 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 decreased \$63,956 to \$856,218 from fiscal year 2011 to fiscal year 2012. This is the net change of \$131,568 in loans purchased, \$195,297 of repaid principal, a decrease in loan premiums of \$509 and a decrease of \$282 in mortgage loan loss reserve.
- In fiscal year 2011, mortgage loans receivable decreased \$2,225 to \$920,174. This is a net change of \$138,303 in loans purchased, \$141,391 of repaid principal, an increase in loan premiums/discounts of \$906 and an increase of \$43 in mortgage loan loss reserve.
- Bonds payable decreased in fiscal year 2012 by \$125,293 to \$840,715 with \$121,835 new bonds issued and \$246,535 bonds called or matured and a \$593 net decrease in bond premiums and discounts. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.
- Bonds payable decreased in fiscal year 2011 by \$101,735 to \$966,008 with \$111,220 new bonds issued, \$213,335 bonds being called or maturing and a \$380 net increase in bond premiums and discounts. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.
- The Agency's Federal Grants Revenue line item decreased to \$12,803 in fiscal year 2012 from \$20,564 in fiscal year 2011 and \$14,125 in fiscal year 2010. The decrease in federal grants was due to Stimulus Funds being received in fiscal year 2011 but not in fiscal year 2012 from the federal government for the Tax Credit Exchange Program and the Tax Credit Assistance Program. The decrease in Federal Grants Expense is directly related to the decrease in Federal Grants Revenues.
- The loan from Bank of North Dakota increased from \$0 in fiscal year 2010 to \$36,165 in fiscal year 2011 and decreased to \$34,801 in fiscal year 2012. \$69,929 of new loans was obtained and \$33,764 of principal payments was made in fiscal year 2011. \$62,427 of new loans was obtained and \$63,791 of principal payments was made in fiscal year 2012.
- The Agency's net assets increased in fiscal year 2012 by \$9,731 to \$133,030 as a result of this year's program operations and financing activities.
- The Agency's net assets increased in fiscal year 2011 by \$8,168 to \$123,299 as a result of the year's program operations and financing activities.

- Fiscal year 2012 Income before Transfers of \$9,359 was up from the prior year by \$4,466 as a result of a decrease in NSP funds received in fiscal year 2012. NSP funds received in fiscal year 2011 were reported as Transfers from Department of Commerce while the expenses were reported as Grant Expense which resulted in a lower Income before Transfers amount and an increase in Transfers In.
- Fiscal year 2011 Income before Transfers of \$4,893 was down from the prior year by \$906 as a result of a decrease in investment income in addition to slightly higher Operating Expenses.
- Operating revenues in fiscal year 2012 of \$49,707 were down \$3,892 from the prior year as a net result of fewer single family mortgages outstanding. This was a result of significant prepayments received due to borrowers refinancing or selling their homes and the interest rate on new loans continuing to stay low. In addition, NDHFA engaged in bundling qualified mortgage loans into Mortgage Backed Securities eliminating the interest income revenue stream on those mortgage loans. This revenue stream is somewhat offset by selling the MBS at a premium.
- Operating revenues in fiscal year 2011 of \$53,599 were up \$291 from the prior year as a net result of more single family mortgages outstanding and less investments resulting in less interest income.
- Fiscal year 2012 operating expenses of \$42,895 were down from fiscal year 2011 \$3,150 as a result of lower interest expense and grant expense.
- Fiscal year 2011 operating expenses of \$46,045 were up from fiscal year 2010 \$1,083 as a result of higher interest expense, general operating expenses and salaries.

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, 2012, 2011 and 2010 (In Thousands)

	2012	2011	2010	2011-2012	
				Change	Percentage
Assets					
Unrestricted current assets	\$ 4,970	\$ 3,031	\$ 3,934	\$ 1,939	64 %
Restricted current assets	172,893	230,199	283,010	(57,306)	(25)
Total current assets	<u>177,863</u>	<u>233,230</u>	<u>286,944</u>	<u>(55,367)</u>	<u>(24)</u>
Unrestricted noncurrent assets	4,028	3,244	3,414	784	24
Restricted noncurrent assets	874,616	935,810	944,578	(61,194)	(7)
	<u>878,644</u>	<u>939,054</u>	<u>947,992</u>	<u>(60,410)</u>	<u>(6)</u>
Total assets	<u>\$ 1,056,507</u>	<u>\$ 1,172,284</u>	<u>\$ 1,234,936</u>	<u>\$ (115,777)</u>	<u>(10) %</u>
Liabilities					
Current liabilities	\$ 69,642	\$ 150,474	\$ 150,227	\$ (80,832)	(54) %
Noncurrent liabilities	853,835	898,511	969,578	(44,676)	(5)
	<u>923,477</u>	<u>1,048,985</u>	<u>1,119,805</u>	<u>(125,508)</u>	<u>(12)</u>
Net Assets					
Invested in capital assets	39	60	85	(21)	(35)
Restricted for debt service	119,220	114,667	99,937	4,553	4
Unrestricted	13,771	8,572	15,109	5,199	61
	<u>133,030</u>	<u>123,299</u>	<u>115,131</u>	<u>9,731</u>	<u>8</u>
Total liabilities and net assets	<u>\$ 1,056,507</u>	<u>\$ 1,172,284</u>	<u>\$ 1,234,936</u>	<u>\$ (115,777)</u>	<u>(10) %</u>

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets
Years Ended June 30, 2012, 2011, and 2010
(In Thousands)

	2012	2011	2010	2011-2012	
				Change	Percentage
Operating Revenues					
Mortgage interest income	\$ 44,326	\$ 48,081	\$ 47,866	\$ (3,755)	(8) %
Investment income	3,312	3,774	3,769	(462)	(12)
Gain on sale of loans receivable	973	-	-	973	100
Fee income	1,096	1,744	1,673	(648)	(37)
Total revenues	<u>49,707</u>	<u>53,599</u>	<u>53,308</u>	<u>(3,892)</u>	<u>(7)</u>
Operating Expenses					
Interest expense	33,330	36,891	36,644	(3,561)	(10)
Agency grants	279	689	519	(410)	(60)
Amortization of deferred bond financing costs	1,804	1,858	1,750	(54)	(3)
Administrative and operating expenses	4,558	3,732	3,388	826	22
Salaries and benefits	2,903	2,850	2,636	53	2
Depreciation	21	25	25	(4)	(16)
Total expenses	<u>42,895</u>	<u>46,045</u>	<u>44,962</u>	<u>(3,150)</u>	<u>(7)</u>
Operating Income	<u>6,812</u>	<u>7,554</u>	<u>8,346</u>	<u>(742)</u>	<u>(10)</u>
Nonoperating Revenues (Expenses)					
Federal grants	12,803	20,564	14,125	(7,761)	(38)
Settlement funds	1,940	-	-	1,940	100
Investment income	960	557	1,168	403	72
Federal grants	(13,156)	(23,782)	(17,979)	10,626	(45)
Gain on liquidation of debt	-	-	139	-	-
Total nonoperating revenues (expenses)	<u>2,547</u>	<u>(2,661)</u>	<u>(2,547)</u>	<u>5,208</u>	<u>(196)</u>
Income Before Transfers	9,359	4,893	5,799	4,466	91
Transfers					
Transfers from Department of Commerce	401	3,305	3,963	(2,904)	(88)
Transfers to Industrial Commission	(29)	(30)	(30)	1	(3)
Change in Net Assets	9,731	8,168	9,732	1,563	19
Total Net Assets, Beginning of Year	<u>123,299</u>	<u>115,131</u>	<u>105,399</u>	<u>8,168</u>	<u>7</u>
Total Net Assets, End of Year	<u>\$ 133,030</u>	<u>\$ 123,299</u>	<u>\$ 115,131</u>	<u>\$ 9,731</u>	<u>8 %</u>

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. Fiscal year 2012 Operating interest income of \$3,312 was down \$462 from the prior year. This was due to very low investment rates on newer Investment Contracts and fewer dollars invested.

The operating interest income was fairly consistent between fiscal year 2011 and the prior year.

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 increase in fiscal year 2012 interest earnings was due to a slight increase in the fair market value compared to the relatively large decrease in fair market value the previous fiscal year.

The decrease in fiscal year 2011 non-operating interest earnings was due to a decrease in the fair market value premium and very low investment rates at the Bank of North Dakota.

Outlook

NDHFA is well positioned, both financially and through the support of our partners, to continue purchasing mortgage loans from lenders. The current economic trends have created a need to expand our options with regards to purchasing mortgage loans from lenders. NDHFA has met this need through a combination of traditional bond issuances and the sale of mortgage portfolios through use of Mortgage Backed Securities which have recently offered a lower cost of borrowing than the traditional tax-exempt bond issuances. NDHFA will constantly evaluate our funding options to ensure that our programs will continue in a competitive but profitable way through the use of bond issuances, MBS's and other financing alternatives.

Due in large part to the oil production in the western part of the state, North Dakota continues to have an expanding population which translates into the need for additional affordable housing. NDHFA anticipates that this need will remain for the foreseeable future, and that we will continue to provide essential services to other agencies and lenders. Combining efforts with other agencies within North Dakota and beyond, NDHFA monitors the housing needs of the State, and develops and operates programs to meet those needs.

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.

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets - Unrestricted		
Cash and cash equivalents	\$ 3,281	\$ 1,504
Due from State Agencies	163	27
Receivables		
Interest		
Loans	106	153
Investments	122	118
Due from HUD	113	164
Other	683	525
Current portion of service release premium	470	496
Prepaid expenses	32	44
Total unrestricted current assets	<u>4,970</u>	<u>3,031</u>
Current Assets - Restricted		
Cash and cash equivalents	150,863	207,585
Receivables		
Current portion of loans receivable	18,524	18,652
Interest		
Loans	3,412	3,749
Investments	61	13
Other	33	200
Total restricted current assets	<u>172,893</u>	<u>230,199</u>
Total current assets	<u>177,863</u>	<u>233,230</u>
Noncurrent Assets - Unrestricted		
Investments	1,017	-
Service release premium, net	2,972	3,184
Equipment, net	39	60
Total unrestricted noncurrent assets	<u>4,028</u>	<u>3,244</u>
Noncurrent Assets - Restricted		
Loans receivable, net of current portion	837,694	901,522
Investments	12,048	11,988
Deferred outflow	18,580	15,160
Deferred bond financing costs, net	6,294	7,140
Total restricted noncurrent assets	<u>874,616</u>	<u>935,810</u>
Total noncurrent assets	<u>878,644</u>	<u>939,054</u>
Total assets	<u>\$ 1,056,507</u>	<u>\$ 1,172,284</u>

See Notes to Financial Statements

North Dakota Housing Finance Agency
Balance Sheets
June 30, 2012 and 2011
(In Thousands)

	2012	2011
Liabilities		
Current Liabilities		
Due to HUD	\$ 76	\$ 31
Due to state agencies	58	101
Current portion of rebate due to IRS	-	928
Other	946	961
Current portion of compensated absences	164	164
Current portion of bonds payable	7,642	82,862
Loan from Bank of North Dakota	34,801	36,165
Accrued interest	16,122	19,178
Funds held in trust	9,833	10,084
Total current liabilities	69,642	150,474
Noncurrent Liabilities		
Compensated absences, net of current portion	94	84
Rebate due to IRS, net of current portion	88	121
Grant funds received in advance	2,000	-
Financial derivative instrument	18,580	15,160
Bonds payable, net of current portion	833,073	883,146
Total noncurrent liabilities	853,835	898,511
Total liabilities	923,477	1,048,985
Net Assets		
Invested in capital assets	39	60
Restricted for debt service	119,220	114,667
Unrestricted	13,771	8,572
Total net assets	133,030	123,299
Total liabilities and net assets	\$ 1,056,507	\$ 1,172,284

North Dakota Housing Finance Agency
 Statements of Revenues, Expenses and Changes in Fund Net Assets
 Years Ended June 30, 2012 and 2011
 (In Thousands)

	2012	2011
Operating Revenues		
Mortgage interest income	\$ 44,326	\$ 48,081
Investment income	3,312	3,774
Gain on sale of loans receivable	973	-
Fee income	1,096	1,744
Total revenues	49,707	53,599
Operating Expenses		
Interest expense	33,330	36,891
Agency grants	279	689
Amortization of deferred bond financing costs	1,804	1,858
Administrative and operating expenses	4,558	3,732
Salaries and benefits	2,903	2,850
Depreciation	21	25
Total expenses	42,895	46,045
Operating Income	6,812	7,554
Nonoperating Revenues (Expenses)		
Federal grants	12,803	20,564
Settlement funds	1,940	-
Investment income	960	557
Federal grants	(13,156)	(23,782)
Total nonoperating revenues (expenses)	2,547	(2,661)
Income Before Transfers	9,359	4,893
Transfers		
Transfers in from Department of Commerce	401	3,305
Transfers out to Industrial Commission	(29)	(30)
Change in Net Assets	9,731	8,168
Total Net Assets, Beginning of Year	123,299	115,131
Total Net Assets, End of Year	\$ 133,030	\$ 123,299

North Dakota Housing Finance Agency
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011
 (In Thousands)

	2012	2011
Operating Activities		
Receipts from customers	\$ 222,078	\$ 197,709
Proceeds from sale of loans receivable	23,273	-
Payment of grants	(182)	(698)
Payments to service providers		
State agencies	(399)	(195)
Mortgage loan purchases	(131,568)	(138,303)
Other	(5,221)	(9,012)
Payments to employees	(2,896)	(2,845)
Payment of rebate to IRS	(926)	(239)
Net cash from operating activities	104,159	46,417
Noncapital Financing Activities		
Principal payments on loan from Bank of North Dakota	(63,791)	(33,764)
Principal payments on bonds payable	(246,535)	(213,335)
Proceeds from loan borrowings from Bank of North Dakota	62,427	69,929
Proceeds from bond issuance	122,475	112,594
Interest paid on loans and bonds	(36,562)	(36,352)
Payment of bond issue costs	(957)	(1,088)
Proceeds from settlement	1,940	-
Proceeds from federal grants	14,803	20,564
Payment of federal grants	(13,156)	(23,782)
Transfers from Department of Commerce	401	3,305
Transfers to Industrial Commission	(29)	(30)
Net cash used for noncapital financing activities	(158,984)	(101,959)
Investing Activities		
Purchase of investments	(1,030)	-
Proceeds from sale of investments	53	-
Interest received from investments	857	860
Net cash from (used for) investing activities	(120)	860
Change in Cash and Cash Equivalents	(54,945)	(54,682)
Cash and Cash Equivalents at Beginning of Year	209,089	263,771
Cash and Cash Equivalents at End of Year	\$ 154,144	\$ 209,089
Cash and cash equivalents - unrestricted	\$ 3,281	\$ 1,504
Cash and cash equivalents - restricted	150,863	207,585
Total cash and cash equivalents	\$ 154,144	\$ 209,089

North Dakota Housing Finance Agency
Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Reconciliation of Operating Income to Net		
Cash from Operating Activities		
Operating income	\$ 6,812	\$ 7,554
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	21	25
Amortization		
Deferred bond financing costs	1,803	1,858
Original issue discounts and premiums	(1,233)	(994)
Service release premium	1,075	992
Reclassification of interest expense to other activities	33,457	37,055
Changes in assets and liabilities		
Due from HUD	51	10
Due from State Agencies	(136)	90
Other receivables	9	(178)
Service release premium	(837)	(845)
Prepaid expenses	12	6
Loan interest receivable	384	(19)
Loans receivable	63,956	2,225
Due to HUD	45	(20)
Due to State Agencies	(43)	83
Rebate due to IRS	(961)	(474)
Other liabilities	(15)	(286)
Compensated absences	10	25
Funds held in trust	(251)	(690)
	<u>\$ 104,159</u>	<u>\$ 46,417</u>
Net cash from operating activities		
Non-cash disclosure:		
Increase (decrease) in fair value of investments	<u>\$ 59</u>	<u>\$ (303)</u>

North Dakota Housing Finance Agency
Statement of Appropriations
Biennium Ended June 30, 2013
(In Thousands)

	<u>2011-2013 Appropriations Original</u>	<u>2011-2013 Appropriations As Adjusted</u>	<u>2011-2013 Expenditures</u>	<u>Unexpended Appropriations</u>
Administrative Expenses				
Salaries, wages and benefits	\$ 6,516	\$ 6,516	\$ 2,904	\$ 3,612
Operating expenses	5,115	5,115	1,599	3,516
Grants, benefits and claims	26,859	33,800	14,442	19,358
Federal stimulus funds	-	991	991	-
Contingency	100	100	-	100
Total	<u>\$ 38,590</u>	<u>\$ 46,522</u>	<u>\$ 19,936</u>	<u>\$ 26,586</u>

- 1) The Agency's total appropriation of \$46,522 consists of funding of \$31,166 from federal funds and \$15,356 special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 6 of SB 2015. As of June 30, 2012, the Agency used \$7,932 in continuing appropriations for grants not included in the original 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):

	<u>2012</u>
Total expenditures	\$ 19,936
Less: Grants, benefits and claims	(15,433)
Administrative and operating expenses relating to Rental, Homeownership Bonds, and Agency expenses	1,883
Amortization of service release premium	1,075
Depreciation	21
Total administrative and operating expenses, salaries and benefits, and depreciation	<u>\$ 7,482</u>

Note 1 - Principal Business Activity and 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 and 2009 General Resolutions 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 and 2009 General Resolutions are general obligations 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.

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 for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net 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 restricted net assets first, and then unrestricted net assets as they are needed. The statements of cash flows present the cash flows for operating activities, investing activities, capital and related financing 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.

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.

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.

Service Release Premium

The Agency purchases the rights to service mortgage loans from the originating financial institutions. The payments to the originating financial institutions are recorded as a service release premium. The premium is amortized over eleven years which is the average life of the mortgage loans including prepayments and refinancing of the loans.

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 non-purpose 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.

Financial Derivative Instrument

North Dakota Housing Finance Agency enters into interest rate swap agreements to modify interest rates on outstanding debt.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, interest earned and proceeds from lending activities, 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.

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.

The bank balance of deposits of the Agency at June 30, 2012 and 2011 were \$15,286 and \$11,755, respectively, consisting of interest-bearing operating cash deposited at the Bank of North Dakota.

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, 2012 and 2011 were \$15,026 and \$11,493, 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.

The carrying amount of the Agency's cash and cash equivalents are reported on the balance sheets at June 30, 2012 and 2011, are as follows:

	2012	2011
Unrestricted		
Cash and cash equivalents		
Deposits	\$ 3,022	\$ 1,409
Cash and cash equivalents held in trust	259	95
Total cash and cash equivalents	\$ 3,281	\$ 1,504
Restricted		
Cash and cash equivalents		
Deposits	\$ 12,004	\$ 10,084
Cash and cash equivalents held in trust	38,330	95,745
Fixed rate investment agreements reported as cash equivalents	100,529	101,756
Total cash and cash equivalents	\$ 150,863	\$ 207,585

North Dakota Housing Finance Agency
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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. The following shows the investments by investment type, amount and the duration at June 30, 2012:

	Total Market Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Federal National Mortgage Association Agency Bond	\$ 5,475	\$ -	\$ 5,475	\$ -	\$ -
US Treasury Bonds	6,573	-	3,651	2,922	-
Mortgage Backed Securities	1,017	-	-	-	1,017
Total debt securities	\$ 13,065	\$ -	\$ 9,126	\$ 2,922	\$ 1,017

The following shows the investments by investment type, amount and the duration at June 30, 2011:

	Total Market Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Federal National Mortgage Association Agency Bond	\$ 6,435	\$ -	\$ -	\$ 6,435	\$ -
US Treasury Bonds	5,553	-	5,553	-	-
	\$ 11,988	\$ -	\$ 5,553	\$ 6,435	\$ -

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, 2012:

	S&P Credit Rating AA+	Total Market Value
Federal National Mortgage Association	<u>\$ 5,475</u>	\$ 5,475
US Treasury Bonds		6,573
Mortgage Backed Securities		<u>1,017</u>
Total Debt Securities		\$ <u>13,065</u>

North Dakota Housing Finance Agency
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The following represents the Agency's ratings as of June 30, 2011:

	S&P Credit Rating AAA	Total Market Value
Federal National Mortgage Association	\$ 6,435	\$ 6,435
US Treasury Bonds		5,553
Total Debt Securities		\$ 11,988

Agency Operating Fund investment securities with a carrying amount of approximately \$12,048 and \$11,988 at June 30, 2012 and 2011, were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

Note 4 - Loans Receivable

Loans receivable at June 30, 2012 and 2011, consist of the following:

	2012	2011
Restricted		
Agency operating funds	\$ 39,358	\$ 38,426
Less current portion	1,030	856
	\$ 38,328	\$ 37,570
Restricted		
Homeownership bond funds	\$ 816,860	\$ 881,748
Less current portion	17,494	17,796
	\$ 799,366	\$ 863,952

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 \$715 which have been foreclosed on and are owned by the Agency (REO), \$40 in real estate loans in judgment (REJ) and 59 loans totaling \$4,625 were in the foreclosure process at June 30, 2012. At June 30, 2011, Homeownership and Agency mortgage loans included \$235 of REO loans, \$67 in real estate loans in judgment (REJ) and 50 loans totaling \$3,417 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.

Note 5 - 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:

	2012	2011
Due from HUD	\$ 113	\$ 164
Due to HUD	\$ 76	\$ 31

Note 6 - Equipment

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

	Equipment	Accumulated Depreciation	Net Equipment
Balance, June 30, 2010	\$ 197	\$ 112	\$ 85
Additions	-	25	
Balance, June 30, 2011	197	137	\$ 60
Additions	-	21	
Balance, June 30, 2012	\$ 197	\$ 158	\$ 39

Note 7 - Other Receivables

A detail of other receivables is as follows:

	2012	2011
Unrestricted		
Receivable from developers	\$ 102	\$ 157
Accounts receivable	581	368
	\$ 683	\$ 525
Restricted		
Receivable from servicer	\$ -	\$ 200
Accounts receivable	33	-
	\$ 33	\$ 200

Note 8 - Related Party Transactions

The Agency had the following transactions with related parties as of June 30, 2012 and 2011.

	2012	2011
Cash and cash equivalents - unrestricted		
Bank of North Dakota	\$ 3,022	\$ 1,409
Cash and cash equivalents - restricted		
Bank of North Dakota	\$ 12,004	\$ 10,084
Due from state agencies		
Department of Commerce	\$ 50	\$ 27
Housing Incentive Fund	113	-
	\$ 163	\$ 27
Due to state agencies		
Information Technology Department	\$ 6	\$ 7
Attorney General	1	2
Department of Transportation	1	1
Bank of North Dakota	48	87
North Dakota State Radio	1	1
Office of Management and Budget	1	3
	\$ 58	\$ 101

North Dakota Housing Finance Agency
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	<u>2012</u>	<u>2011</u>
Loan payable to the Bank of North Dakota	<u>\$ 34,801</u>	<u>\$ 36,165</u>
Transfers in		
Department of Commerce	<u>\$ 401</u>	<u>\$ 3,305</u>
Transfers out		
Industrial Commission	<u>\$ 29</u>	<u>\$ 30</u>
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 178	\$ 77
Information Technology Department		
Telephone	26	27
Data processing	57	49
Attorney General		
Legal fees	23	22
Office of Management and Budget		
Supplies and conferences	15	10
Risk management premium	2	2
Indirect cost allocation	-	3
Department of Transportation		
Travel	14	11
ND State Radio Communications		
NCIC Access	5	4
Department of Insurance		
State fire and tornado fund premium	-	1
Housing Incentive Fund		
Administration and support	137	-

Note 9 - Other Liabilities

A detail of other liabilities is as follows:

	<u>2012</u>	<u>2011</u>
Remarketing fees	\$ 50	\$ 53
Commitment fees	224	203
Accounts payable	555	609
Trustee fees	<u>117</u>	<u>96</u>
	<u>\$ 946</u>	<u>\$ 961</u>

Note 10 - Compensated Absences

A summary of compensated absences follows:

	2012	2011
Beginning balance, July 1	\$ 248	\$ 223
Additions	183	179
Reductions	(173)	(154)
Ending balance, June 30	\$ 258	\$ 248
Amounts due within one year	\$ 164	\$ 164

Note 11 - Bonds Payable

Change in Bonds Payable

A summary of changes in bonds payable follows:

	Balance 2011	Additions	Reductions	Balance 2012	Amounts Due Within One Year
Homeownership bond funds, par	\$ 958,825	\$ 121,835	\$ 246,535	\$ 834,125	\$ 7,255
Premium on bond funds	7,183	640	1,233	6,590	387
Homeownership bond funds, net	\$ 966,008	\$ 122,475	\$ 247,768	\$ 840,715	\$ 7,642
	Balance 2010	Additions	Reductions	Balance 2011	Amounts Due Within One Year
Homeownership bond funds, par	\$ 1,060,940	\$ 111,220	\$ 213,335	\$ 958,825	\$ 82,470
Premium on bond funds	6,837	1,374	1,028	7,183	392
Discount on bond funds	(34)	-	(34)	-	-
Homeownership bond funds, net	\$ 1,067,743	\$ 112,594	\$ 214,329	\$ 966,008	\$ 82,862

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.

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Maturities of Bonds Payable

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 7,255	\$ 34,430	\$ 41,685
2014	16,465	34,219	50,684
2015	24,560	33,573	58,133
2016	26,570	32,697	59,267
2017	27,505	31,653	59,158
2018-2022	127,135	142,561	269,696
2023-2027	129,240	115,703	244,943
2028-2032	150,405	85,489	235,894
2033-2037	207,410	47,065	254,475
2038-2042	117,580	9,623	127,203
Premiums	-	(6,590)	(6,590)
	<u>\$ 834,125</u>	<u>\$ 560,423</u>	<u>\$ 1,394,548</u>

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2012 and 2011. 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.

	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
Series 2001A			
Serial bonds 7/1/03 - 7/1/14	3.90 - 5.15	\$ -	\$ 1,595
Term bonds 7/1/21	5.45	-	2,675
Term bonds 7/1/31 (not reoffered)	5.55	-	2,475
Term bonds 1/1/32	5.55	-	3,770
Series 2001C			
Serial bonds 7/1/03 - 7/1/13	2.70 - 4.70	-	425
Term bonds 7/1/22	5.30	2,165	2,420
Term bonds 7/1/33 (not reoffered)	5.40	1,065	1,190
Term bonds 1/1/34	5.40	2,410	2,695
Series 2002A			
Serial bonds 7/1/04 - 7/1/13	3.35 - 5.15	-	200
Term bonds 1/1/22 (not reoffered)	5.55	-	935
Term bonds 7/1/22	5.55	-	1,380
Term bonds 7/1/33 (not reoffered)	5.65	-	1,830
Term bonds 1/1/34	5.65	-	2,005
Series 2002B			
Serial bonds 7/1/04 - 7/1/13	2.00 - 4.375	-	1,275
PAC term bonds 7/1/33	Variable	-	75
Term bonds 1/1/34	Variable	-	9,870

North Dakota Housing Finance Agency
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	Interest Rate	2012	2011
Series 2003B			
PAC term bonds 1/1/34	Variable	-	975
Term bonds 7/1/34	Variable	14,205	14,205
Term bonds 1/1/35	Variable	4,945	5,145
Series 2004C			
Serial bonds 7/1/05 - 7/1/15	2.15 - 4.90	-	2,010
Term bonds 7/1/24	5.20	1,295	2,545
Term bonds 1/1/29	5.25	1,050	2,055
Term bonds 1/1/35 (not reoffered)	5.30	555	1,085
PAC term bonds 1/1/35	Variable	20,185	20,465
Term bonds 7/1/35	5.30	625	1,215
Series 2005A			
Term bonds 7/1/24	Variable	23,100	23,100
Term bonds 1/1/36	Variable	13,770	14,795
Series 2005CD			
Serial bonds 7/1/06 - 7/1/16	3.05 - 4.45	6,845	11,695
Term bond 1/1/29	4.70	2,885	5,420
Term bond 1/1/36	Variable	12,000	12,000
Series 2006A			
Serial bonds 7/1/07 - 7/1/16	3.85 - 4.75	5,895	9,995
Term bond 7/1/21	4.85	1,925	4,210
Term bond 7/1/26	4.95	2,785	6,095
Term bond 7/1/31	5.00	1,690	6,890
Term bond 1/1/37	5.50	9,545	13,765
Term bond 7/1/37	Variable	30,210	30,210
Premium		1,110	1,186
Series 2007AB			
Serial bonds 7/1/08 - 7/1/17	3.70 - 4.45	3,885	7,020
Term bond 7/1/21	4.60	3,085	3,785
Term bond 7/1/26	4.70	4,845	5,940
Term bond 7/1/31	4.75	4,900	6,005
Term bond 1/1/37	5.50	19,965	24,040
Term bond 7/1/37	4.80	10,425	12,795
Premium		1,338	1,806
Series 2007CD			
Serial bonds 7/1/08 - 7/1/17	3.85 - 4.85	4,040	6,180
Term bond 7/1/22	5.20	5,195	5,615
Term bond 7/1/27	5.25	6,715	7,255
Term bond 1/1/38	5.75	18,140	22,345
Term bond 7/1/38	5.35	14,795	17,780
Premium		876	1,130
Series 2008A			
Serial bonds 7/1/09 - 7/1/18	2.60 - 4.90	3,625	5,195
Term bond 7/1/23	5.40	1,650	3,770
Term bond 7/1/28	5.65	2,165	4,950
Term bond 7/1/32	5.80	510	4,670
Term bond 7/1/38	5.75	7,625	9,535
Term bond 1/1/39	Variable	13,700	13,700
Premium		545	574

North Dakota Housing Finance Agency
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	Interest Rate	2012	2011
Series 2008B			
Term bond 7/1/38	Variable	12,735	12,735
Series 2008D			
Serial bonds 7/1/10 - 7/1/18	2.65 - 4.65	12,700	17,120
Term bond 7/1/23	5.15	8,790	12,855
Term bond 7/1/28	5.40	11,405	16,680
Term bond 7/1/33	5.55	14,920	21,830
Term bond 1/1/39	5.625	9,280	16,045
Term bond 7/1/39	Variable	21,850	21,850
Series 2009 AB			
Serial bonds 1/1/10 - 7/1/19	.75 - 4.10	33,175	40,960
Term bond 7/1/34	5.35	9,320	12,355
Term bond 7/1/39	5.45	6,095	13,575
Term bond 1/1/30	Variable	47,745	47,745
Series 2009 CD			
Serial bonds 1/1/11 - 7/1/21	1.0 - 4.125	12,745	13,355
PAC Term Bond 1/1/2029	5.25	7,300	8,195
Term bond 1/1/41	4.44	8,810	9,420
Term bond 7/1/41	3.96	34,760	38,020
Term bond 7/1/26	4.75	6,240	9,025
Premium		587	685
Series 2009 E	0.00	-	73,100
Series 2010 AB			
Serial bonds 7/1/11 - 7/1/21	.75 - 4.05	13,365	14,615
Term bond 7/1/26	4.45	5,745	8,305
PAC Term Bond 7/1/2028	5.00	8,225	8,870
Term bond 7/1/41	3.96	44,990	47,680
Premium		413	471
Series 2010 CD			
Serial bonds 7/1/12 - 7/1/20	.90 - 3.40	5,330	5,605
Term bond 7/1/26	4.125	4,350	5,395
Term bond 1/1/29	4.50	4,780	5,000
Term bond 7/1/41	3.16	22,970	24,000
Premium		269	301
Series 2010 EF			
Serial bonds 7/1/11 - 7/1/20	.60 - 3.45	10,550	12,725
Serial bonds 7/1/11 - 7/1/15	1.6 - 3.2	545	1,905
Term bond 7/1/25	4.375	6,185	7,240
Term bond 7/1/30	4.75	7,845	9,185
Term bond 7/1/240	5.05	13,890	16,275
PAC Term Bond 7/1/2041	4.50	9,965	10,690
PAC Term Bond 1/1/2035	4.50	12,160	13,200
Premium		845	1,030

North Dakota Housing Finance Agency
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	Interest Rate	2012	2011
Series 2011 AB			
Serial bonds 7/1/12 - 7/1/22	.35 - 4.0	21,230	-
Term bond 1/1/25	4.45	6,000	-
Term bond 1/1/28	4.50	8,280	-
Term bond 1/1/31	3.96	9,870	-
Term bond 7/1/41	3.96	43,730	-
Premium		527	-
Series 2011 CD			
Serial bonds 1/1/13 - 7/1/22	.85 - 3.70	7,270	-
Term bond 1/1/26	4.125	2,765	-
Term bond 1/1/28	4.25	2,700	-
Term bond 7/1/41	3.96	19,100	-
Premium		80	-
		<u>\$ 840,715</u>	<u>\$ 966,008</u>

The Agency is allowed to earn a mortgage yield of 1.125% more than the yield on the corresponding bonds. The Agency monitors the yield related to the bonds and mortgages to ensure the Agency is in compliance with the yield requirements.

Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of \$840,715 maturing at various times from July 1, 2011 through July 1, 2041. The bonds have been issued to provide financing to purchase mortgage loans. Annual principal and interest payments on the bonds are expected to require 98 percent of net revenues. Principal and interest paid for the current year and total customer net revenues were \$282,920 and \$213,889 respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues

Subsequent Events

The Agency issued Series 2012 A Homeownership Bond Funds totaling \$50,000 and Series 2012 B Homeownership Bond Funds totaling \$14,510 subsequent to year-end.

The Agency securitized mortgage loans to create mortgage backed securities which were sold for proceeds of \$45,931 subsequent to year-end.

Note 12 - Financial Derivative Instrument

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 cash flow hedges or swaps in connection with various variable-rate housing bond series¹. All Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate.⁶ The Agency also has cash flow hedges that were entered into in connection with variable-rate housing bond series that no longer have bonds outstanding as those bonds have been called. The cash flow hedges that are not connected to a specific bond series hedge the risk related to the Agency's other variable-rate housing bonds that are un-hedged.

Terms

The bonds and the related swap agreements have a stated issuance² and maturity date³. Some of the swaps have optional termination dates¹⁵. Under the swaps, the Agency 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 swap notional amount⁴. 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. The net change in fair value of the individual swaps is presented in the terms table below¹⁴.

Credit Risk

As of June 30, 2012 and 2011, 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 AAa/AA+/AAA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreements with Bank of New York Mellon and the Royal Bank of Canada as a credit enhancement.

The Agency has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparties. Under the terms of these arrangements netting provisions permit each party to net the transactions' fair values so that a single sum will be owed by, or owed to, the other party. At June 30, 2012 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$3,197 and the swap providers owed the Agency a variable rate on the notional amounts of \$412 making the net payment that the Agency owed the swap providers \$2,785.

Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value¹⁰ of \$18,580 and \$15,160 as of June 30, 2012 and 2011. Accordingly, the financial derivative instrument is reported as a liability and the accumulated changes in fair value of the swaps were reported as a deferred outflow at June 30, 2012 and 2011. 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, 2012 and 2011. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

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.

Rollover Risk

The Agency is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Agency will be re-exposed to the risks being hedged by the hedging derivative instrument. The Agency also is exposed to rollover risk on the swaps that mature and the Agency does not call the related variable rate debt.

The terms of the interest rate swaps at June 30, 2012 are as follows:

North Dakota Housing Finance Agency

Notes to Financial Statements

June 30, 2012 and 2011

(In Thousands)

1	Bond Series	Bonds Called	Bonds Called	2004 C	2005 A
2	Issuance Date	4/1/2004	4/1/2004	6/10/2004	4/13/2005
3	Maturity Date	1/1/2013	7/1/2035	7/1/2014	7/1/2024
4	Notional Amount	865	12,990	1,960	23,100
5	Variable-rate Bonds	N/A	N/A	2,865	23,100
6	Fixed Rate	2.620%	3.980%	4.095%	3.870%
7	LIBOR Percentage	63.00%	63.00%	63.00%	62.90%
8	Additional Percentage	0.34%	0.34%	0.34%	0.32%
9	Bonds Variable-rate	N/A	N/A	0.17000%	0.21000%
10	Fair Value	(11)	(680)	(98)	(787)
11	Percentage of LIBOR	0.49498%	0.49498%	0.49498%	0.47473%
12	Synthetic Rate	2.12502%	3.48502%	3.77002%	3.60527%
13	Actual Synthetic Rate	N/A	N/A	4.05380%	3.76141%
14	Change in Fair Value	41	160	90	360
15	Optional Termination Date	N/A	7/1/2013	N/A	7/1/2012

1	Bond Series	2005 C	2006 A	2008 A	2008 B
2	Issuance Date	9/21/2005	5/4/2006	2/26/2008	2/26/2008
3	Maturity Date	1/1/2036	7/1/2016	1/1/2017	7/1/2038
4	Notional Amount	12,000	30,210	13,700	11,450
5	Variable-rate Bonds	12,000	30,210	13,700	12,735
6	Fixed Rate	3.889%	3.955%	3.198%	4.725%
7	LIBOR Percentage	63.00%	63.00%	63.00%	100.00%
8	Additional Percentage	0.31%	0.31%	0.32%	0.00%
9	Bonds Variable-rate	0.21000%	0.17000%	0.17000%	0.17000%
10	Fair Value	(1,419)	(4,383)	(1,644)	(2,114)
11	Percentage of LIBOR	0.46498%	0.46498%	0.47498%	0.24600%
12	Synthetic Rate	3.63402%	3.66002%	2.89302%	4.64900%
13	Actual Synthetic Rate	3.79666%	3.85055%	3.48600%	5.14631%
14	Change in Fair Value	413	356	(366)	(699)
15	Optional Termination Date	1/1/2016	N/A	N/A	1/1/2020

1	Bond Series	2008 D	2009 B
2	Issuance Date	8/5/2008	7/30/2009
3	Maturity Date	7/1/2039	1/1/2025
4	Notional Amount	21,850	44,500
5	Variable-rate Bonds	21,850	47,745
6	Fixed Rate	3.919%	3.108%
7	LIBOR Percentage	63.70%	64.70%
8	Additional Percentage	0.20%	0.23%
9	Bonds Variable-rate	0.15000%	0.17000%
10	Fair Value	(3,665)	(3,778)
11	Percentage of LIBOR	0.35670%	0.38916%
12	Synthetic Rate	3.71230%	2.88884%
13	Actual Synthetic Rate	3.79804%	2.88455%
14	Change in Fair Value	(1,396)	(873)
15	Optional Termination Date	1/1/2018	7/1/2016

North Dakota Housing Finance Agency

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June 30, 2012 and 2011

(In Thousands)

The terms of the interest rate swaps at June 30, 2011 are as follows:

¹ Bond Series	2002 B	Bonds Called	2003 B	Bonds Called
² Issuance Date	8/28/2002	5/14/2003	8/27/2003	4/1/2004
³ Maturity Date	7/1/2011	1/1/2012	1/1/2012	1/1/2013
⁴ Notional Amount	75	1,020	975	2,405
⁵ Variable-rate Bonds	75	N/A	975	N/A
⁶ Fixed Rate	2.940%	2.463%	3.155%	2.620%
⁷ LIBOR Percentage	70.60%	62.50%	64.00%	63.00%
⁸ Additional Percentage	0.00%	0.44%	0.37%	0.34%
⁹ Bonds Variable-rate	0.09000%	N/A	0.11000%	N/A
¹⁰ Fair Value	(1)	(14)	(18)	(52)
¹¹ Percentage of LIBOR	0.13100%	0.55597%	0.48375%	0.45690%
¹² Synthetic Rate	2.89900%	1.90703%	2.78125%	2.16310%
¹³ Actual Synthetic Rate	3.17681%	N/A	3.07816%	N/A
¹⁴ Change in Fair Value	19	30	46	65
¹⁵ Optional Termination Date	N/A	N/A	N/A	N/A

¹ Bond Series	Bonds Called	2004 C	2005 A	2005 C
² Issuance Date	4/1/2004	6/10/2004	4/13/2005	9/21/2005
³ Maturity Date	7/1/2035	7/1/2014	7/1/2024	1/1/2036
⁴ Notional Amount	12,990	3,145	23,100	12,000
⁵ Variable-rate Bonds	N/A	3,145	23,100	12,000
⁶ Fixed Rate	3.980%	4.095%	3.870%	3.889%
⁷ LIBOR Percentage	63.00%	63.00%	62.90%	63.00%
⁸ Additional Percentage	0.34%	0.34%	0.32%	0.31%
⁹ Bonds Variable-rate	N/A	0.14000%	0.10000%	0.14000%
¹⁰ Fair Value	(840)	(188)	(1,147)	(1,006)
¹¹ Percentage of LIBOR	0.45690%	0.45690%	0.43671%	0.42690%
¹² Synthetic Rate	3.52310%	3.77810%	3.53329%	3.60210%
¹³ Actual Synthetic Rate	N/A	4.04021%	3.80394%	3.83089%
¹⁴ Change in Fair Value	206	1,118	520	201
¹⁵ Optional Termination Date	7/1/2013	N/A	7/1/2012	1/1/2016

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(In Thousands)

1	Bond Series	2006 A	2008 A	2008 B	2008 D
2	Issuance Date	5/4/2006	2/26/2008	2/26/2008	8/5/2008
3	Maturity Date	7/1/2016	1/1/2017	7/1/2038	7/1/2039
4	Notional Amount	30,210	13,700	12,735	21,850
5	Variable-rate Bonds	30,210	13,700	12,735	21,850
6	Fixed Rate	3.955%	3.198%	4.725%	3.919%
7	LIBOR Percentage	63.00%	63.00%	100.00%	63.70%
8	Additional Percentage	0.31%	0.32%	0.00%	0.20%
9	Bonds Variable-rate	0.09000%	0.11000%	0.13000%	0.06000%
10	Fair Value	(4,027)	(1,278)	(1,415)	(2,269)
11	Percentage of LIBOR	0.42690%	0.43690%	0.18555%	0.31820%
12	Synthetic Rate	3.61810%	2.87110%	4.66945%	3.66080%
13	Actual Synthetic Rate	3.89177%	3.09977%	5.28156%	3.84102%
14	Change in Fair Value	314	60	349	481
15	Optional Termination Date	7/1/2016	1/1/2017	1/1/2020	1/1/2018
1	Bond Series	2009 B			
2	Issuance Date	7/30/2009			
3	Maturity Date	1/1/2025			
4	Notional Amount	47,745			
5	Variable-rate Bonds	47,745			
6	Fixed Rate	3.108%			
7	LIBOR Percentage	64.70%			
8	Additional Percentage	0.23%			
9	Bonds Variable-rate	0.11000%			
10	Fair Value	(2,905)			
11	Percentage of LIBOR	0.35005%			
12	Synthetic Rate	2.86795%			
13	Actual Synthetic Rate	2.93998%			
14	Change in Fair Value	444			
15	Optional Termination Date	7/1/2016			

Swap Payments and Associated Debt

Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments are as follows. Interest calculations were based on rates as of June 30, 2012. 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		
2013	\$ 11,380	\$ 279	\$ 5,505	\$ 17,164
2014	5,305	263	5,102	10,670
2015	4,305	255	4,729	9,289
2016	4,845	247	4,592	9,684
2017	49,605	173	3,159	52,937
2018 - 2022	33,005	643	12,052	45,700
2023 - 2027	19,815	348	7,115	27,278
2028 - 2032	6,440	282	5,941	12,663
2033 - 2037	17,625	163	3,725	21,513
2038 - 2042	11,880	22	522	12,424
	<u>\$ 164,205</u>	<u>\$ 2,675</u>	<u>\$ 52,442</u>	<u>\$ 219,322</u>

Note 13 - 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, 2012 and 2011:

Balance, June 30, 2010	\$ -
Principal payments on advance from Bank of North Dakota	(33,764)
Loan advance from Bank of North Dakota	<u>69,929</u>
Balance, June 30, 2011	36,165
Principal payments on advance from Bank of North Dakota	(63,791)
Loan advance from Bank of North Dakota	<u>62,427</u>
Balance, June 30, 2012	<u>\$ 34,801</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2012, the line of credit with the Bank of North Dakota is secured by the mortgages funded by the advances, has a credit limit of \$60,000 and expires on May 1, 2013. The line of credit bears interest at 1% point over the 90 day LIBOR index with a minimum interest rate of 2%.

Note 14 - 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.

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 to contribute the employees' 4% share. Effective January 1, 2012, the employee's share was increased by 1% to 5%. The additional 1% is withheld from the employees wage as a pre-tax deduction. In addition, the North Dakota Housing Finance Agency makes a 4.12% employer contribution and the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. Effective January 1, 2012, the North Dakota Housing Finance Agency is required to contribute 5.12% of each participant's salary as the employer's share. The prefunded retiree health insurance contribution remained at 1.14%. 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, 2012, 2011, and 2010 were \$215, \$192, and \$177.

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

Note 15 - 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.

	2012	2011
Commitments to extend credit	\$ 97,536	\$ 35,225
Lendable proceeds uncommitted	\$ 17,650	\$ 164

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.

As of June 30, 2012 and 2011, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$243 and \$204, respectively.

Note 16 - Rebate Due to IRS

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

	2012	2011
Series 01AB	\$ -	\$ 25
Series 06A	-	30
Series 07AB	88	994
	\$ 88	\$ 1,049

A summary of the rebate due to IRS follows:

	2012	2011
Beginning balance, July 1	\$ 1,049	\$ 1,523
Additions	-	-
Reductions	(961)	(474)
Ending balance, June 30	\$ 88	\$ 1,049
Amounts due within one year	\$ -	\$ 928

Note 17 - Fund Net Assets

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

The Agency operating fund has investment securities pledged under the 1994 and 2009 General Bond Resolutions. 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 18 - 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 19 - 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:

<u>Year ending June 30</u>		
2013	\$	214
2014		214
2015		213
2016		213
2017		213
2018 - 2019		427
		427
	\$	1,494

Total rental expense on operating leases was \$225 for each of the years ended June 30, 2012 and 2011.

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Note 20 - 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, 2012, was as follows:

	Agency Operating Funds	Home- ownership Bond Funds	Elimina-	Total Enterprise
Balance Sheet				
Current assets - other	\$ 21,020	\$ 161,936	\$ (5,093)	\$ 177,863
Capital assets - net	39	-	-	39
Noncurrent assets - other	42,317	836,278	10	878,605
Total assets	<u>63,376</u>	<u>998,214</u>	<u>(5,083)</u>	<u>1,056,507</u>
Current liabilities - other	47,472	27,253	(5,083)	69,642
Noncurrent liabilities - other	2,094	851,741	-	853,835
Total liabilities	<u>49,566</u>	<u>878,994</u>	<u>(5,083)</u>	<u>923,477</u>
Invested in capital assets	39	-	-	39
Net assets - unrestricted	13,771	-	-	13,771
Net assets - restricted	-	119,220	-	119,220
Total net assets	<u>\$ 13,810</u>	<u>\$ 119,220</u>	<u>\$ -</u>	<u>\$ 133,030</u>
Statement of Revenues, Expenses and Change in Fund Net Assets				
Operating revenues				
Mortgage interest income	\$ 789	\$ 43,537	\$ -	\$ 44,326
Investment income	-	3,312	-	3,312
Gain on sale of loans receivable	-	973	-	973
Fee income	6,346	-	(5,250)	1,096
Depreciation	(21)	-	-	(21)
Other operating expenses	(6,195)	(41,929)	5,250	(42,874)
Operating income	<u>919</u>	<u>5,893</u>	<u>-</u>	<u>6,812</u>
Nonoperating revenues (expenses)				
Federal grants	12,803	-	-	12,803
Settlement funds	1,940	-	-	1,940
Investment income	960	-	-	960
Federal grants	(13,156)	-	-	(13,156)
Transfers	372	-	-	372
Change in net assets	<u>2,919</u>	<u>5,893</u>	<u>-</u>	<u>2,919</u>
Total net assets, beginning of year	8,632	114,667	-	123,299
Equity transfer in (out)	1,340	(1,340)	-	-
Total net assets, end of year	<u>\$ 13,810</u>	<u>\$ 119,220</u>	<u>\$ -</u>	<u>\$ 133,030</u>

North Dakota Housing Finance Agency
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June 30, 2012 and 2011
(In Thousands)

	Agency Operating Funds	Home- ownership Bond Funds	Elimina- tions	Total Enterprise Funds
Statement of Cash Flows				
Net cash from operating activities	\$ 1,996	\$ 102,214	\$ (51)	\$ 104,159
Net cash used for noncapital financing activities	1,821	(160,856)	51	(158,984)
Net cash used for investing activities	(120)	-	-	(120)
Change in cash and cash equivalents	<u>3,697</u>	<u>(58,642)</u>	<u>-</u>	<u>(54,945)</u>
Cash and cash equivalents, beginning of year	<u>11,588</u>	<u>197,501</u>	<u>-</u>	<u>209,089</u>
Cash and cash equivalents, end of year	<u>\$ 15,285</u>	<u>\$ 138,859</u>	<u>\$ -</u>	<u>\$ 154,144</u>

Segment information for the year ended June 30, 2011:

	Agency Operating Funds	Home- ownership Bond Funds	Elimina- tions	Total Enterprise Funds
Balance Sheet				
Current assets - other	\$ 15,952	\$ 220,648	\$ (3,370)	\$ 233,230
Capital assets - net	60	-	-	60
Noncurrent assets - other	40,754	898,179	61	938,994
Total assets	<u>56,766</u>	<u>1,118,827</u>	<u>(3,309)</u>	<u>1,172,284</u>
Current liabilities - other	48,050	105,733	(3,309)	150,474
Noncurrent liabilities - other	84	898,427	-	898,511
Total liabilities	<u>48,134</u>	<u>1,004,160</u>	<u>(3,309)</u>	<u>1,048,985</u>
Invested in capital assets	60	-	-	60
Net assets - unrestricted	8,572	-	-	8,572
Net assets - restricted	-	114,667	-	114,667
Total net assets	<u>\$ 8,632</u>	<u>\$ 114,667</u>	<u>\$ -</u>	<u>\$ 123,299</u>

North Dakota Housing Finance Agency
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	Agency Operating Funds	Home- ownership Bond Funds	Elimina- tions	Total Enterprise Funds
Statement of Revenues, Expenses and				
Change in Fund Net Assets				
Operating revenues				
Mortgage interest income	\$ 1,098	\$ 46,983	\$ -	\$ 48,081
Investment income	-	3,774	-	3,774
Fee income	6,445	-	(4,701)	1,744
Depreciation	(25)	-	-	(25)
Other operating expenses	(6,645)	(44,076)	4,701	(46,020)
Operating income	<u>873</u>	<u>6,681</u>	<u>-</u>	<u>7,554</u>
Nonoperating revenues (expenses)				
Federal grants	20,564	-	-	20,564
Investment income	557	-	-	557
Federal grants	(23,782)	-	-	(23,782)
Gain on liquidation of debt	-	-	-	-
Transfers	3,275	-	-	3,275
Change in net assets	<u>614</u>	<u>6,681</u>	<u>-</u>	<u>614</u>
Total net assets, beginning of year	15,194	99,937	-	115,131
Equity transfer in (out)	<u>(8,049)</u>	<u>8,049</u>	<u>-</u>	<u>-</u>
Total net assets, end of year	<u>\$ 8,632</u>	<u>\$ 114,667</u>	<u>\$ -</u>	<u>\$ 123,299</u>
Statement of Cash Flows				
Net cash from (used in) operating activities	\$ (36,732)	\$ 83,192	\$ (43)	\$ 46,417
Net cash from (used for) noncapital financing activities	34,295	(136,297)	43	(101,959)
Net cash from investing activities	860	-	-	860
Change in cash and cash equivalents	<u>(1,577)</u>	<u>(53,105)</u>	<u>-</u>	<u>(54,682)</u>
Cash and cash equivalents, beginning of year	<u>13,165</u>	<u>250,606</u>	<u>-</u>	<u>263,771</u>
Cash and cash equivalents, end of year	<u>\$ 11,588</u>	<u>\$ 197,501</u>	<u>\$ -</u>	<u>\$ 209,089</u>

Note 21 - Issued But Non-Effective Pronouncements

GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*” was issued in April 2012 and is effective for periods beginning after December 15, 2012. The effects of this statement have not yet been determined.

GASB Statement No. 65, “*Technical Corrections - 2012*” was issued in April 2012 and is effective for periods beginning after December 15, 2012. The effects of this statement have not yet been determined.



Combining Statements and Supplementary Information
June 30, 2012 and 2011

North Dakota Housing Finance Agency

	Agency Operating Funds	Homeownership Bond Funds		Total Homeownership Bond Funds	Total	Elimination	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Assets								
Current Assets - Unrestricted								
Cash and cash equivalents	\$ 3,281	\$ -	\$ -	\$ -	\$ 3,281	\$ -	\$ 3,281	\$ 1,504
Due from State Agencies	163	-	-	-	163	-	163	27
Receivables								
Interest								
Loans	106	-	-	-	106	-	106	153
Investments	122	-	-	-	122	-	122	118
Due from HUD	113	-	-	-	113	-	113	164
Other	3,699	-	-	-	3,699	(3,016)	683	525
Current portion of service release premium, net	470	-	-	-	470	-	470	496
Prepaid expenses	32	-	-	-	32	-	32	44
Total unrestricted current assets	<u>7,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,986</u>	<u>(3,016)</u>	<u>4,970</u>	<u>3,031</u>
Current Assets - Restricted								
Cash and cash equivalents	12,004	110,405	28,454	138,859	150,863	-	150,863	207,585
Receivables								
Current portion of loans receivable	1,030	12,373	5,121	17,494	18,524	-	18,524	18,652
Interest								
Loans	-	2,415	997	3,412	3,412	-	3,412	3,749
Investments	-	17	44	61	61	-	61	13
Other	-	850	1,260	2,110	2,110	(2,077)	33	200
Total restricted current assets	<u>13,034</u>	<u>126,060</u>	<u>35,876</u>	<u>161,936</u>	<u>174,970</u>	<u>(2,077)</u>	<u>172,893</u>	<u>230,199</u>
Total current assets	<u>21,020</u>	<u>126,060</u>	<u>35,876</u>	<u>161,936</u>	<u>182,956</u>	<u>(5,093)</u>	<u>177,863</u>	<u>233,230</u>
Noncurrent Assets - Unrestricted								
Investments	1,017	-	-	-	1,017	-	1,017	-
Service release premium, net	2,972	-	-	-	2,972	-	2,972	3,184
Equipment, net	39	-	-	-	39	-	39	60
Total unrestricted noncurrent assets	<u>4,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,028</u>	<u>-</u>	<u>4,028</u>	<u>3,244</u>
Noncurrent Assets - Restricted								
Loans receivable, net of current portion	38,328	515,900	283,466	799,366	837,694	-	837,694	901,522
Investments	-	12,048	-	12,048	12,048	-	12,048	11,988
Deferred outflow	-	18,580	-	18,580	18,580	-	18,580	15,160
Deferred bond financing costs, net	-	3,987	2,297	6,284	6,284	10	6,294	7,140
Total restricted noncurrent assets	<u>38,328</u>	<u>550,515</u>	<u>285,763</u>	<u>836,278</u>	<u>874,606</u>	<u>10</u>	<u>874,616</u>	<u>935,810</u>
Total noncurrent assets	<u>42,356</u>	<u>550,515</u>	<u>285,763</u>	<u>836,278</u>	<u>878,634</u>	<u>10</u>	<u>878,644</u>	<u>939,054</u>
Total assets	<u>\$ 63,376</u>	<u>\$ 676,575</u>	<u>\$ 321,639</u>	<u>\$ 998,214</u>	<u>\$ 1,061,590</u>	<u>\$ (5,083)</u>	<u>\$ 1,056,507</u>	<u>\$ 1,172,284</u>

North Dakota Housing Finance Agency
Combining Balance Sheets
June 30, 2012 and 2011
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Liabilities								
Current Liabilities								
Due to HUD	\$ 76	\$ -	\$ -	\$ -	\$ 76	\$ -	\$ 76	\$ 31
Due to State Agencies	58	-	-	-	58	-	58	101
Current portion of rebate due to IRS	-	-	-	-	-	-	-	928
Other	2,540	2,511	978	3,489	6,029	(5,083)	946	961
Current portion of compensated absences	164	-	-	-	164	-	164	164
Current portion of bonds payable	-	2,016	5,626	7,642	7,642	-	7,642	82,862
Loan from Bank of North Dakota	34,801	-	-	-	34,801	-	34,801	36,165
Accrued interest	-	10,676	5,446	16,122	16,122	-	16,122	19,178
Funds held in trust	9,833	-	-	-	9,833	-	9,833	10,084
Total current liabilities	<u>47,472</u>	<u>15,203</u>	<u>12,050</u>	<u>27,253</u>	<u>74,725</u>	<u>(5,083)</u>	<u>69,642</u>	<u>150,474</u>
Noncurrent Liabilities								
Compensated absences, net of current portion	94	-	-	-	94	-	94	84
Rebate due to IRS, net of current portion	-	88	-	88	88	-	88	121
Grant funds received in advance	2,000	-	-	-	2,000	-	2,000	-
Financial derivative instrument	-	18,580	-	18,580	18,580	-	18,580	15,160
Bonds payable, net of current portion	-	536,268	296,805	833,073	833,073	-	833,073	883,146
Total noncurrent liabilities	<u>2,094</u>	<u>554,936</u>	<u>296,805</u>	<u>851,741</u>	<u>853,835</u>	<u>-</u>	<u>853,835</u>	<u>898,511</u>
Total liabilities	<u>49,566</u>	<u>570,139</u>	<u>308,855</u>	<u>878,994</u>	<u>928,560</u>	<u>(5,083)</u>	<u>923,477</u>	<u>1,048,985</u>
Net Assets								
Invested in capital assets	39	-	-	-	39	-	39	60
Restricted for debt service	-	106,436	12,784	119,220	119,220	-	119,220	114,667
Unrestricted	13,771	-	-	-	13,771	-	13,771	8,572
Total net assets	<u>13,810</u>	<u>106,436</u>	<u>12,784</u>	<u>119,220</u>	<u>133,030</u>	<u>-</u>	<u>133,030</u>	<u>123,299</u>
Total liabilities and net assets	<u>\$ 63,376</u>	<u>\$ 676,575</u>	<u>\$ 321,639</u>	<u>\$ 998,214</u>	<u>\$ 1,061,590</u>	<u>\$ (5,083)</u>	<u>\$ 1,056,507</u>	<u>\$ 1,172,284</u>

North Dakota Housing Finance Agency
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended June 30, 2012 and 2011
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimina- tions	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Operating Revenues								
Mortgage interest income	\$ 789	\$ 31,228	\$ 12,309	\$ 43,537	\$ 44,326	\$ -	\$ 44,326	\$ 48,081
Investment income	-	2,487	825	3,312	3,312	-	3,312	3,774
Gain on sale of loans receivable	-	-	973	973	973	-	973	-
Fee income	6,346	-	-	-	6,346	(5,250)	1,096	1,744
Total revenues	7,135	33,715	14,107	47,822	54,957	(5,250)	49,707	53,599
Operating Expenses								
Interest expense	-	23,208	10,122	33,330	33,330	-	33,330	36,891
Agency grants	279	-	-	-	279	-	279	689
Amortization of deferred bond financing costs	-	1,504	300	1,804	1,804	-	1,804	1,858
Administrative and operating expenses	3,013	5,404	1,391	6,795	9,808	(5,250)	4,558	3,732
Salaries and benefits	2,903	-	-	-	2,903	-	2,903	2,850
Depreciation	21	-	-	-	21	-	21	25
Total expenses	6,216	30,116	11,813	41,929	48,145	(5,250)	42,895	46,045
Operating Income	919	3,599	2,294	5,893	6,812	-	6,812	7,554
Nonoperating Revenue (Expenses)								
Federal grants	12,803	-	-	-	12,803	-	12,803	20,564
Settlement funds	1,940	-	-	-	1,940	-	1,940	-
Investment income	960	-	-	-	960	-	960	557
Federal grants	(13,156)	-	-	-	(13,156)	-	(13,156)	(23,782)
Total nonoperating revenues (expenses)	2,547	-	-	-	2,547	-	2,547	(2,661)
Income Before Transfers	3,466	3,599	2,294	5,893	9,359	-	9,359	4,893

North Dakota Housing Finance Agency
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended June 30, 2012 and 2011
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimina- tions	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Transfers in from Department of Commerce	401	-	-	-	401	-	401	3,305
Transfers out to Industrial Commission	(29)	-	-	-	(29)	-	(29)	(30)
Change in Net Assets	3,838	3,599	2,294	5,893	9,731	-	9,731	8,168
Total Net Assets, Beginning of Year	8,632	104,316	10,351	114,667	123,299	-	123,299	115,131
Equity Transfer in (Out)	1,340	(1,479)	139	(1,340)	-	-	-	-
Total Net Assets, End of Year	<u>\$ 13,810</u>	<u>\$ 106,436</u>	<u>\$ 12,784</u>	<u>\$ 119,220</u>	<u>\$ 133,030</u>	<u>\$ -</u>	<u>\$ 133,030</u>	<u>\$ 123,299</u>

North Dakota Housing Finance Agency
Combining Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Operating Activities								
Receipts from customers	\$ 7,341	\$ 185,071	\$ 33,193	\$ 218,264	\$ 225,605	\$ (3,527)	\$ 222,078	\$ 197,709
Proceeds from sale of loans receivable	1,030	-	22,243	22,243	23,273	-	23,273	-
Interfund loan purchases and sales	59,259	10,935	(70,194)	(59,259)	-	-	-	-
Payments of grants	(182)	-	-	-	(182)	-	(182)	(698)
Payments to service providers								
State agencies	(399)	-	-	-	(399)	-	(399)	(195)
Mortgage loan purchases	(60,814)	(2,972)	(67,782)	(70,754)	(131,568)	-	(131,568)	(138,303)
Other	(1,343)	(6,484)	(870)	(7,354)	(8,697)	3,476	(5,221)	(9,012)
Payments to employees	(2,896)	-	-	-	(2,896)	-	(2,896)	(2,845)
Payment of rebate to IRS	-	(926)	-	(926)	(926)	-	(926)	(239)
Net cash from (used in) operating activities	<u>1,996</u>	<u>185,624</u>	<u>(83,410)</u>	<u>102,214</u>	<u>104,210</u>	<u>(51)</u>	<u>104,159</u>	<u>46,417</u>
Noncapital Financing Activities								
Principal payments on loan from Bank of North Dakota	(63,791)	-	-	-	(63,791)	-	(63,791)	(33,764)
Principal payments on bonds payable	-	(154,670)	(91,865)	(246,535)	(246,535)	-	(246,535)	(213,335)
Proceeds from loan borrowings from Bank of North Dakota	62,427	-	-	-	62,427	-	62,427	69,929
Proceeds from bond issuance	-	-	122,475	122,475	122,475	-	122,475	112,594
Interest paid on loans and bonds	(177)	(27,804)	(8,581)	(36,385)	(36,562)	-	(36,562)	(36,352)
Payment of bond issue costs	-	(50)	(958)	(1,008)	(1,008)	51	(957)	(1,088)
Proceeds from settlement	1,940	-	-	-	1,940	-	1,940	-
Proceeds from federal grants	14,803	-	-	-	14,803	-	14,803	20,564
Payment of federal grants	(13,156)	-	-	-	(13,156)	-	(13,156)	(23,782)
Transfers from Department of Commerce	401	-	-	-	401	-	401	3,305
Transfers to Industrial Commission	(29)	-	-	-	(29)	-	(29)	(30)
Interfund transfer in (out)	(597)	(503)	1,100	597	-	-	-	-
Net cash from (used for) noncapital financing activities	<u>1,821</u>	<u>(183,027)</u>	<u>22,171</u>	<u>(160,856)</u>	<u>(159,035)</u>	<u>51</u>	<u>(158,984)</u>	<u>(101,959)</u>

North Dakota Housing Finance Agency
Combining Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Investing Activities								
Purchase of investments	(1,030)	-	-	-	(1,030)	-	(1,030)	-
Proceeds from sale of investments	53	-	-	-	53	-	53	-
Interest received from investments	857	-	-	-	857	-	857	860
Net cash from (used for) investing activities	<u>(120)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(120)</u>	<u>-</u>	<u>(120)</u>	<u>860</u>
Change in Cash and Cash Equivalents	3,697	2,597	(61,239)	(58,642)	(54,945)	-	(54,945)	(54,682)
Cash and Cash Equivalents at Beginning of Year	<u>11,588</u>	<u>107,808</u>	<u>89,693</u>	<u>197,501</u>	<u>209,089</u>	<u>-</u>	<u>209,089</u>	<u>263,771</u>
Cash and Cash Equivalents at End of Year	<u>\$ 15,285</u>	<u>\$ 110,405</u>	<u>\$ 28,454</u>	<u>\$ 138,859</u>	<u>\$ 154,144</u>	<u>\$ -</u>	<u>\$ 154,144</u>	<u>\$ 209,089</u>

North Dakota Housing Finance Agency
Combining Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		94 General Resolution	2009 General Resolution				2012	2011
Reconciliation of Operating Income to Net								
Cash from Operating Activities								
Operating income	\$ 919	\$ 3,599	\$ 2,294	\$ 5,893	\$ 6,812	\$ -	\$ 6,812	\$ 7,554
Adjustments to reconcile operating income to net cash from operating activities								
Depreciation	21	-	-	-	21	-	21	25
Amortization								
Deferred bond financing costs	-	1,503	300	1,803	1,803	-	1,803	1,858
Original issue discounts and premiums	-	(1,013)	(220)	(1,233)	(1,233)	-	(1,233)	(994)
Service release premiums	1,075	-	-	-	1,075	-	1,075	992
Reclassification of interest expense to other activities	174	23,204	10,079	33,283	33,457	-	33,457	37,055
Changes in assets and liabilities								
Due from HUD	51	-	-	-	51	-	51	10
Due from State Agencies	(136)	-	-	-	(136)	-	(136)	90
Other receivables	(1,181)	671	(1,204)	(533)	(1,714)	1,723	9	(178)
Service release premium	(837)	-	-	-	(837)	-	(837)	(845)
Prepaid expenses	-	12	-	12	12	-	12	6
Loan interest receivable	47	650	(313)	337	384	-	384	(19)
Loans receivable	1,063	158,023	(95,130)	62,893	63,956	-	63,956	2,225
Due to HUD	45	-	-	-	45	-	45	(20)
Due to State Agencies	(43)	-	-	-	(43)	-	(43)	83
Rebate due to IRS	-	(961)	-	(961)	(961)	-	(961)	(474)
Other liabilities	1,039	(64)	784	720	1,759	(1,774)	(15)	(286)
Compensated absences	10	-	-	-	10	-	10	25
Funds held in trust	(251)	-	-	-	(251)	-	(251)	(690)
Net cash from (used in) operating activities	<u>\$ 1,996</u>	<u>\$ 185,624</u>	<u>\$ (83,410)</u>	<u>\$ 102,214</u>	<u>\$ 104,210</u>	<u>\$ (51)</u>	<u>\$ 104,159</u>	<u>\$ 46,417</u>
Non-cash disclosures								
Increase (decrease) in fair value of investments	\$ 59	\$ -	\$ -	\$ -	\$ 59	\$ -	\$ 59	\$ (303)
Investment transfers	\$ 221	\$ (95)	\$ (126)	\$ (221)	\$ -	\$ -	\$ -	\$ -
Transfers associated with pledged loans	\$ (2,219)	\$ 959	\$ 1,260	\$ 2,219	\$ -	\$ -	\$ -	\$ -
Administration fees adjustment	\$ -	\$ 172	\$ (172)	\$ -	\$ -	\$ -	\$ -	\$ -

North Dakota Housing Finance Agency
Housing and Urban Development – Section 8 Financial Data Schedule
Year Ended June 30, 2012

Line Item #	Description	Rent	Section 8	Lower Income				
		Supplements- Rental Housing for Lower Income Families	Moderate Rehabilitation Single Room Occupancy	Assistance Program Section 8 Moderate Rehabilitate ND901MR0001	Assistance Program Section 8 Moderate Rehabilitate ND901MR0002	Assistance Program Section 8 Moderate Rehabilitate ND901MR0003	Assistance Program Section 8 Moderate Rehabilitate ND901MR0004	Assistance Program Section 8 Moderate Rehabilitate ND901MR0005
Assets								
111	Cash - Unrestricted	\$ 92,440	\$ 19,834	\$ 40,120	\$ 19,743	\$ 22,003	\$ 12,409	\$ 13,257
113	Cash - Other Restricted	-	-	-	-	42,044	7,019	-
100	Total Cash	92,440	19,834	40,120	19,743	64,047	19,428	13,257
122	Accounts Receivable - HUD Other Projects	91,500	1,448	12,245	54	-	-	4,251
125	Accounts Receivable - Miscellaneous	150	52	89	32	52	28	37
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-
120	Total Receivables, net of allowance for doubtful	91,650	1,500	12,334	86	52	28	4,288
142	Prepaid Expenses and Other Assets	8,511	34	56	20	33	18	23
150	Total Current Assets	192,601	21,368	52,510	19,849	64,132	19,474	17,568
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-	-	-
190	Total Assets	192,601	21,368	52,510	19,849	64,132	19,474	17,568
Liabilities and Equity								
311	Bank Overdraft	-	-	-	-	-	-	-
312	Accounts Payable <= 90 Days	2,750	191	324	115	190	103	134
331	Accounts Payable - HUD PHA Programs	-	-	-	-	42,044	7,019	-
310	Total Current Liabilities	2,750	191	324	115	42,234	7,122	134
350	Total Noncurrent Liabilities	-	-	-	-	-	-	-
300	Total Liabilities	2,750	191	324	115	42,234	7,122	134
508	Total Contributed Capital	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	42,044	7,019	-
512.1	Unrestricted Net Assets	189,851	21,177	52,186	19,734	(20,146)	5,333	17,434
513	Total Equity/Net Assets	189,851	21,177	52,186	19,734	21,898	12,352	17,434
600	Total Liabilities and Equity/Net Assets	192,601	21,368	52,510	19,849	64,132	19,474	17,568

North Dakota Housing Finance Agency
Housing and Urban Development – Section 8 Financial Data Schedule
Year Ended June 30, 2012

	Rent Supplements- Rental Housing for Lower Income Families	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
Revenue							
705	Total Tenant Revenue	-	-	-	-	-	-
706	HUD PHA Operating Grants	11,630,549	64,205	172,837	45,560	75,405	103,247
711	Investment Income - Unrestricted	-	34	59	21	35	25
120	Investment Income - Restricted	76	3	4	1	2	2
700	Total Revenue	11,630,625	64,242	172,900	45,582	75,442	103,274
Expenses							
911	Administrative Salaries	318,068	6,706	11,454	4,074	6,705	4,749
912	Auditing Fees	8,236	176	300	107	176	124
915	Employee Benefit Contribution - Administrative	119,234	2,509	4,287	1,525	2,509	1,777
916	Other Operating - Administrative	69,109	1,971	3,371	1,199	1,973	1,400
918	Travel	22,850	78	130	46	76	54
919	Other	103,103	4,453	7,607	2,705	4,453	3,154
969	Total Operating Expenses	640,600	15,893	27,149	9,656	15,892	11,258
970	Excess Operating Revenue Over Operating Expenses	10,990,025	48,349	145,751	35,926	59,550	92,016
973	Housing Assistance Payments	11,011,597	46,159	142,010	34,681	57,359	90,466
900	Total Expenses	11,652,197	62,052	169,159	44,337	73,251	101,724
1010	Total Other Financing Sources (Uses)	-	-	-	-	-	-
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(21,572)	2,190	3,741	1,245	2,191	1,550
Memo Account Information							
1102	Debt Principal Payment - Enterprise Funds	-	-	-	-	-	-
1103	Beginning Equity	211,423	22,560	48,558	18,599	19,617	15,931
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	(3,573)	(113)	(110)	90	(47)
1113	Maximum Annual Contributions Commitment(per ACC)	12,646,756	112,032	124,189	45,580	95,825	103,247
1114	Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 months	-	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	7,010,754	118,195	-	20	45,277	26,734
1116	Total Annual Contributions Available	19,657,510	230,227	124,189	45,600	141,102	103,247
1120	Unit Months Available	38,757	288	492	175	288	204
1121	Number of Unit Months Leased	38,757	257	463	162	248	198

North Dakota Housing Finance Agency
Housing and Urban Development – Section 8 Financial Data Schedule
Year Ended June 30, 2012

Line Item #	Description	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0006	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0008	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0009	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0010	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0011
Assets						
111	Cash - Unrestricted	89,258	12,411	39,369	-	-
113	Cash - Other Restricted	20,620	1,417	5,381	-	-
100	Total Cash	109,878	13,828	44,750	-	-
122	Accounts Receivable - HUD Other Projects	-	-	-	-	-
125	Accounts Receivable - Miscellaneous	169	26	78	-	-
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
120	Total Receivables, net of allowance for doubtful	169	26	78	-	-
142	Prepaid Expenses and Other Assets	107	16	49	-	-
150	Total Current Assets	110,154	13,870	44,877	-	-
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-
190	Total Assets	110,154	13,870	44,877	-	-
Liabilities and Equity						
311	Bank Overdraft	-	-	-	-	-
312	Accounts Payable <= 90 Days	618	95	285	-	-
331	Accounts Payable - HUD PHA Programs	20,620	1,417	5,381	-	-
310	Total Current Liabilities	21,238	1,512	5,666	-	-
350	Total Noncurrent Liabilities	-	-	-	-	-
300	Total Liabilities	21,238	1,512	5,666	-	-
508	Total Contributed Capital	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Assets	20,620	1,417	5,381	-	-
512.1	Unrestricted Net Assets	68,296	10,941	33,830	-	-
513	Total Equity/Net Assets	88,916	12,358	39,211	-	-
600	Total Liabilities and Equity/Net Assets	110,154	13,870	44,877	-	-

North Dakota Housing Finance Agency
Housing and Urban Development – Section 8 Financial Data Schedule
Year Ended June 30, 2012

	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0006	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0008	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0009	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0010	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0011
Revenue					
705 Total Tenant Revenue	-	-	-	-	-
706 HUD PHA Operating Grants	225,674	49,308	90,588	-	-
711 Investment Income - Unrestricted	113	17	52	-	-
120 Investment Income - Restricted	8	1	4	-	-
700 Total Revenue	225,795	49,326	90,644	-	-
Expenses					
911 Administrative Salaries	21,837	3,352	10,057	-	-
912 Auditing Fees	572	88	264	-	-
915 Employee Benefit Contribution - Administrative	8,172	1,255	3,764	-	-
916 Other Operating - Administrative	6,427	986	2,960	-	-
918 Travel	248	38	113	-	-
919 Other	14,504	2,227	6,680	-	-
969 Total Operating Expenses	51,760	7,946	23,838	-	-
970 Excess Operating Revenue Over Operating Expenses	174,035	41,380	66,806	-	-
973 Housing Assistance Payments	166,933	40,285	63,520	-	-
900 Total Expenses	218,693	48,231	87,358	-	-
1010 Total Other Financing Sources (Uses)	-	-	-	-	-
1000 Excess (Deficiency) of Operating Revenue Over (Under) Expenses	7,102	1,095	3,286	-	-
Memo Account Information					
1102 Debt Principal Payment - Enterprise Funds	-	-	-	-	-
1103 Beginning Equity	81,693	11,243	36,124	14,361	12,718
1104 Prior Period Adjustments, Equity Transfers and Correction of Errors	121	20	(199)	(14,361)	(12,718)
1113 Maximum Annual Contributions Commitment (per ACC)	195,626	43,263	11,494	-	-
1114 Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 Months	-	-	-	-	-
1115 Contingency Reserve, ACC Program Reserve	-	-	-	-	-
1116 Total Annual Contributions Available	195,626	43,263	11,494	-	-
1120 Unit Months Available	938	144	432	-	-
1121 Number of Unit Months Leased	730	141	321	-	-

North Dakota Housing Finance Agency
Adjusted Net Worth Calculation
Year Ended June 30, 2012
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period		\$ 133,030
Less		
Itemized unacceptable assets		
1. Due from state agencies	\$ (163)	
2.	\$ -	
3.	\$ -	
Total unacceptable assets		\$ (163)
Adjusted net worth		\$ 132,867

B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 2)		\$ 24,579
Plus		
Outstanding balance of commitment authority issued and requested		\$ 40,000
Total outstanding portfolio and authority		\$ 64,579
Required net worth		\$ 1,199

C. Excess (deficit) net worth

(Adjusted net worth - required net worth)		\$ 131,668
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North Dakota Housing Finance Agency
Insurance Coverage Schedule
Year Ended June 30, 2012
(In Thousands)

A. Identification of affiliated Ginnie Mae issuers

Affiliated Ginnie Mae issuers (Issuer name and Ginnie Mae issuer identification number)	None
Affiliated issuers on same insurance policies (Issuer name and Ginnie Mae issuer identification number)	None

B. Required insurance calculation

Servicing portfolio	
Ginnie Mae	\$ 24,579
Fannie Mae	\$ 1,198
Freddie Mac	\$ -
Conventional (other)	\$ 697,172
Total servicing portfolio	\$ 722,949
Required fidelity bond coverage	\$ 1,179
Required mortgage servicing errors and omissions coverage	\$ 1,179

C. Verification of insurance coverage

Fidelity bond coverage at end of reporting period	\$ 2,000
Mortgage servicing errors and omissions coverage at end of reporting period	\$ 1,000

D. Excess (deficit) insurance coverage

Fidelity bond coverage	\$ 821
Required servicing errors and omissions coverage	\$ (179)

E. Ginnie Mae loss payable endorsement

Fidelity bond coverage	Yes
Mortgage servicing errors and omissions coverage	Yes

North Dakota Housing Finance Agency
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

<u>Federal Grantor/Federal Agency /Pass through Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Rural Housing Service Division			
Very Low to Moderate Income Housing Loans	10.410		<u>\$ 26,304,593</u>
<u>Department of Housing and Urban Development</u>			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117		67,785,957
Rent Supplements - Rental Housing for Lower Income Families	14.149		11,652,199
Housing Counseling Assistance Program	14.169		92,054
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		814,315
Section 8 Moderate Rehabilitation - Single room occupancy	14.249		<u>62,051</u>
Section 8 Cluster			876,366
Tax Credit Assistance Program - (Recovery Act Funded)	14.258		424,644
Community Development Block Grants	14.228		2,039,887
Community Planning and Development Division			
Pass through from ND Department of Commerce			
Community Development Block Grants	14.228		<u>27,412</u>
Total Community Development Block Grants			2,067,299
HOME Investment Partnership Program	14.239	3173-M11PI-13, 2816-M10PI-13 & 2448-M09PI-13	<u>275,635</u>
Total Department of Housing and Urban Development			<u>83,174,154</u>
<u>Department of Veterans Affairs</u>			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114		<u>4,415,862</u>
Total			<u><u>\$ 113,894,609</u></u>

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting other than the amounts provided to subrecipients which are presented on the cash 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, 2012 and 2011.

		2012
Very Low to Moderate Income Housing Loans	10.410	\$ 125,688,949
Mortgage Insurance - Homes	14.117	500,153,409
Veterans Housing - Guaranteed and Insured Loans	64.114	48,019,800

Note 3 - Subrecipients

Of the federal awards presented in the schedule, the Agency provided federal awards to subrecipients as follows:

Federal Grantor/Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Department of Housing and Urban Development		
Community Development Block Grants	14.228	\$ 2,000,000
Housing Counseling Assistance Program	14.169	92,054

Findings:

11-01 – Subrecipient Monitoring, Community Development Block Grants (CFDA 14.228) and Housing Counseling Assistance Program (CFDA 14.169)

Condition - The Agency did not complete all required subrecipient monitoring activities for federal funds passed through to subrecipients. The Agency did not identify to the subrecipients the CFDA number and that the *OMB Circular A-133 Compliance* requirements were applicable. The Agency also did not ensure that subrecipients had the required audits completed or review and evaluate the results of those audits.

Criteria - Pass-through entities are responsible for identifying Federal award information and applicable compliance requirements at the time of awards to subrecipients, for monitoring the subrecipient's use of Federal awards to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements, ensuring that subrecipients have the required audits completed and reviewing the results of those audits, and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Cause - The Agency was unaware of the A-133 compliance requirements related to subrecipient monitoring.

Effect - Improper subrecipient monitoring could result in non-compliance related to Federal regulations passed through to the subrecipients and improper evaluation of the impact of the subrecipient activities on the Agency's compliance with the Federal regulations.

Recommendation - We recommend the Agency review the A-133 requirements related to subrecipient monitoring and ensure they are following the monitoring requirements for any Federal awards passed through to subrecipients.

Management's Response - As of September 20, 2011 the Agency has informed all subrecipients of the CFDA number regarding the federal funds and discussed the OMB Circular A-133 Compliance requirements. Additionally the Agency has received thirteen of the seventeen required audits and is working to collect the remaining four.

Status – Corrected in current year.



CPAs & BUSINESS ADVISORS

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, 2012, and have issued our report thereon dated November 1, 2012. 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

Management of the North Dakota Housing Finance Agency is responsible for establishing and maintaining effective 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, others within the entity, and the federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Bismarck, North Dakota
November 1, 2012



CPAs & BUSINESS ADVISORS

**Report on Compliance with Requirements That Could Have a Direct and Material Effect
on 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 North Dakota Housing Finance Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the North Dakota Housing Finance Agency's major federal programs for the year ended June 30, 2012. 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 of the 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the North Dakota Housing Finance Agency is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, others within the entity and the federal awarding and pass-through 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
November 1, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over federal programs:	
Material weakness identified	No
Significant deficiency	None reported
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Mortgage Insurance - Homes	14.117
Tax Credit Assistance Program (Recovery Act Funded)	14.258
Community Development Block Grants	14.228

Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,383,260
Auditee qualified as low-risk auditee	Yes

Section II – Financial Statement Audit Findings

None

Section III – Federal Award Program Audit Findings

None



Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

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, 2012 audit of the Agency are as follows:

Audit Report Communications:

What type of opinion was issued on the financial statements?

Unqualified

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

Yes

Was internal control adequate and functioning effectively?

Yes

Were there any indications of lack of efficiency in financial operations and management of the Authority?

No

Was action taken on prior audit findings and recommendations?

Yes, prior year finding was corrected.

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 64. Please refer to this document for all recommendations and agency responses.

Audit Committee Communications

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

None

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

Identify any significant audit adjustments.

None

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

Identify any significant difficulties encountered in performing the audit.

None

Identify any major issues discussed with management prior to retention.

None

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.

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
November 1, 2012



CPAs & BUSINESS ADVISORS

Karlene Fine, Executive Director
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of North Dakota Housing Finance Agency for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Housing Finance Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Fair value of investments - Management's estimate of investments is based on the exchange value of investments between two willing parties. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Fair value of financial derivative instruments - Management's estimate of the fair value of financial derivative instruments is based on the zero-coupon method and the discounted cash flow method. We evaluated the key factors and assumptions used to develop the fair value of the instruments in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not identify any known or likely misstatements during the audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Advisory Board and management of the North Dakota Housing Finance Agency and is not intended to be and should not be used by anyone other than these specified parties.

Eide Sallee LLP

Bismarck, North Dakota
November 1, 2012