

**NORTH DAKOTA HOUSING FINANCE AGENCY  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly above, in all material respects, the financial position of the business-type activities of the North Dakota Housing Finance Agency, as of June 30, 2013, and its revenues, expenses and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements of the North Dakota Housing Finance Agency are intended to present the net position, revenues, expenses and cash flows of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the 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, 2013 and 2012, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 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.

### *Other Information*

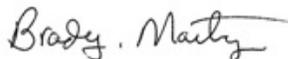
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Housing Finance Agency's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The accompanying supplementary information on pages 43 through 54 and schedule of expenditures of federal awards are presented for purposes of additional analysis and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining a financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The financial statements of the North Dakota Housing Finance Agency as of June 30, 2012, were audited by another auditor whose report dated November 1, 2012 expressed an unqualified opinion on those statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

October 11, 2013

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013 AND 2012**  
**(In Thousands)**

The discussion and analysis of the financial performance of the North Dakota Housing Finance Agency (Agency) that follows is meant to provide additional insight into the Agency's activities for the years ended June 30, 2013, 2012 and 2011. 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**

In FY2013, mortgage loans receivable decreased \$176,853 to \$679,365. This is a net change of \$147,440 in loans purchased, \$321,767 of repaid principal, a decrease in loan premiums/discounts of \$2,668 and a decrease of \$142 in mortgage loan loss reserve.

Mortgage loans receivable decreased \$63,956 to \$856,218 from FY2011 to FY2012. This is the net change of \$131,567 in loans purchased, \$195,297 of repaid principal, a net change in loan premiums/discounts of \$508 and a decrease of \$282 in mortgage loan loss reserve.

Bonds payable decreased in FY2013 by \$144,797 to \$695,918 with \$64,510 new bonds issued, \$209,045 bonds being called or maturing and a \$262 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 FY2012 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.

The Agency's Federal Grants Revenue line item decreased to \$11,287 in FY2013 from \$12,803 in FY2012 and \$20,564 in FY2011. Federal Stimulus funds for the Tax Credit Exchange Program and the Tax Credit Assistance Program make up the majority of the decrease. Federal Stimulus funds of \$8,331 were received in FY2011, and \$991 in FY2012. No Federal Stimulus funds were received in FY2013. The remaining decrease is attributed to the Contract Administration program, where the amount of rental assistance paid decreased in FY2013. The decrease in Federal Grants Expense is directly related to the decrease in Federal Grants Revenues.

The loan from Bank of North Dakota decreased from \$36,165 in FY2011 to \$34,801 in FY 2012 and decreased to \$8,653 in FY2013. \$62,427 of new loans were obtained and \$63,791 of principal payments were made in FY2012. \$95,258 of new loans were obtained and \$121,406 of principal payments were made in FY2013.

The Agency's net position increased in FY2013 by \$7,607 to \$140,637 as a result of this year's program operations and financing activities.

The Agency's net position increased in FY2012 by \$9,731 to \$133,030 as a result of this year's program operations and financing activities.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

FY2013 Income Before Transfers of \$7,007 was down from the prior year by \$2,352 due to a reduction in mortgage loans receivable outstanding.

FY2012 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 FY2012. NSP funds received in FY2011 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.

Operating revenues in FY2013 of \$42,804 were down \$6,903 from the prior year as a result of less single family mortgages outstanding offset slightly by higher fee income. The Agency continues to securitize and sell Ginnie Mae eligible mortgage loans into Mortgage Backed Securities resulting in a lower mortgage loan receivable balance.

Operating revenues in FY2012 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.

FY2013 operating expenses of \$36,499 were down from FY2012 \$6,396 as a result of lower interest expense due to less bonds outstanding and lower general operating expenses.

FY2012 operating expenses of \$42,895 were down from FY2011 \$3,150 as a result of lower interest expense and grant expense.

**Overview of the Financial Statements**

The 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 Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position summarizes the Agency's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Agency.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**Condensed Statement of Net Position**  
**June 30, 2013, 2012 and 2011**  
(In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percentage</u>
<b>ASSETS</b>					
Unrestricted current assets	\$ 5,804	\$ 4,970	\$ 3,031	\$ 834	17 %
Restricted current assets	<u>180,600</u>	<u>172,893</u>	<u>230,199</u>	<u>7,707</u>	<u>4</u>
Total current assets	<u>186,404</u>	<u>177,863</u>	<u>233,230</u>	<u>8,541</u>	<u>5</u>
Unrestricted noncurrent assets	5,193	4,028	3,244	1,165	29
Restricted noncurrent assets	<u>680,810</u>	<u>856,036</u>	<u>920,650</u>	<u>(175,226)</u>	<u>(20)</u>
	<u>686,003</u>	<u>860,064</u>	<u>923,894</u>	<u>(174,061)</u>	<u>(20)</u>
Total assets	<u>\$ 872,407</u>	<u>\$ 1,037,927</u>	<u>\$ 1,157,124</u>	<u>\$ (165,520)</u>	<u>(16) %</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>					
Financial derivative instrument	<u>\$ 12,866</u>	<u>\$ 18,580</u>	<u>\$ 15,160</u>	<u>\$ (5,714)</u>	<u>(31) %</u>
<b>LIABILITIES</b>					
Current liabilities	\$ 44,647	\$ 69,642	\$ 150,474	\$ (24,995)	(36) %
Noncurrent liabilities	<u>699,989</u>	<u>853,835</u>	<u>898,511</u>	<u>(153,846)</u>	<u>(18)</u>
Total liabilities	<u>\$ 744,636</u>	<u>\$ 923,477</u>	<u>\$ 1,048,985</u>	<u>\$ (178,841)</u>	<u>(19) %</u>
<b>NET POSITION</b>					
Invested in capital assets	\$ 20	\$ 39	\$ 60	\$ (19)	(49) %
Restricted for debt service	123,385	119,220	114,667	4,165	3
Unrestricted	<u>17,232</u>	<u>13,771</u>	<u>8,572</u>	<u>3,461</u>	<u>25</u>
Total net position	<u>\$ 140,637</u>	<u>\$ 133,030</u>	<u>\$ 123,299</u>	<u>\$ 7,607</u>	<u>6 %</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**Statement of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2013, 2012 and 2011**  
(In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percentage</u>
<b>OPERATING REVENUES</b>					
Mortgage interest income	\$ 34,468	\$ 44,326	\$ 48,081	\$ (9,858)	(22) %
Investment income	3,212	3,312	3,774	(100)	(3)
Gain on sale of investment	2,830	-	-	2,830	-
Gain on sale of loans receivable	-	973	-	(973)	(100)
Fee income	2,294	1,096	1,744	1,198	109
Total revenues	<u>42,804</u>	<u>49,707</u>	<u>53,599</u>	<u>(6,903)</u>	<u>(14)</u>
<b>OPERATING EXPENSES</b>					
Interest expense	25,960	33,330	36,891	(7,370)	(22)
Agency grants	1,464	279	689	1,185	425
Amortization of deferred bond financing costs	1,907	1,804	1,858	103	6
Administrative and operating expenses	4,047	4,558	3,732	(511)	(11)
Salaries and benefits	3,102	2,903	2,850	199	7
Depreciation	19	21	25	(2)	(10)
Total expenses	<u>36,499</u>	<u>42,895</u>	<u>46,045</u>	<u>(6,396)</u>	<u>(15)</u>
<b>OPERATING INCOME</b>	<u>6,305</u>	<u>6,812</u>	<u>7,554</u>	<u>(507)</u>	<u>(7)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal grants	11,287	12,803	20,564	(1,516)	(12)
Settlement grants	1,000	1,940	-	(940)	(48)
Investment income	292	960	557	(668)	(70)
Federal grants	(11,877)	(13,156)	(23,782)	1,279	(10)
	<u>702</u>	<u>2,547</u>	<u>(2,661)</u>	<u>(1,845)</u>	<u>(72)</u>
<b>INCOME BEFORE TRANSFERS</b>	7,007	9,359	4,893	(2,352)	(25)
<b>TRANSFERS</b>					
Transfers from Dept. of Commerce	628	401	3,305	227	57
Transfers to Industrial Commission	(28)	(29)	(30)	1	(3)
<b>CHANGE IN NET POSITION</b>	7,607	9,731	8,168	(2,353)	(24)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>133,030</u>	<u>123,299</u>	<u>115,131</u>	<u>9,731</u>	<u>8</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 140,637</u>	<u>\$ 133,030</u>	<u>\$ 123,299</u>	<u>\$ 7,607</u>	<u>6 %</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

**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.

FY2013 Operating interest income of \$3,212 was down slightly from the prior year as a result of continuing low investment rates on investment contracts.

FY2012 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.

Non-operating interest income represents earnings on the Agencies investments. These funds are invested in US Treasury securities, Mortgage Backed Securities or the Bank of North Dakota money market and demand accounts. The decrease in FY2013 interest earnings was due to a significant decrease in the fair market value compared to the slight increase in fair market value the previous fiscal year.

The increase in FY2012 non-operating 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.

**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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
**(In Thousands)**

**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 request for additional financial information should be address to the North Dakota Housing Finance Agency, P.O. Box 1535, Bismarck, ND 58502-1535.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS - UNRESTRICTED</b>		
Cash and cash equivalents	\$ 4,402	\$ 3,281
Due from State Agencies	52	163
Receivables		
Interest		
Loans	41	106
Investments	131	122
Due from HUD	110	113
Other	583	683
Current portion of service release premium	426	470
Prepaid expenses	59	32
Total unrestricted current assets	5,804	4,970
<b>CURRENT ASSETS - RESTRICTED</b>		
Cash and cash equivalents	161,121	150,863
Receivables		
Current portion of loans receivable	16,727	18,524
Interest		
Loans	2,643	3,412
Investments	75	61
Other	34	33
Total restricted current assets	180,600	172,893
Total current assets	186,404	177,863
<b>NONCURRENT ASSETS - UNRESTRICTED</b>		
Investments	2,505	1,017
Service release premium, net	2,668	2,972
Equipment, net	20	39
Total unrestricted noncurrent assets	5,193	4,028
<b>NONCURRENT ASSETS - RESTRICTED</b>		
Loans receivable, net of current portion	662,638	837,694
Investments	13,127	12,048
Deferred bond financing costs, net	5,045	6,294
Total restricted noncurrent assets	680,810	856,036
Total noncurrent assets	686,003	860,064
Total assets	872,407	1,037,927
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Financial derivative instrument	12,866	18,580

	<u>2013</u>	<u>2012</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to HUD	\$ 8	\$ 76
Due to state agencies	22	58
Other	852	946
Current portion of compensated absences	173	164
Current portion of bonds payable	11,450	7,642
Loan from Bank of North Dakota	8,653	34,801
Accrued interest	12,484	16,122
Funds held in trust	<u>11,005</u>	<u>9,833</u>
Total current liabilities	<u>44,647</u>	<u>69,642</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences, net of current portion	90	94
Rebate due to IRS, net of current portion	80	88
Revolving loan fund received in advance	2,485	-
Grant funds received in advance	-	2,000
Financial derivative instrument	12,866	18,580
Bonds payable, net of current portion	<u>684,468</u>	<u>833,073</u>
Total noncurrent liabilities	<u>699,989</u>	<u>853,835</u>
Total liabilities	<u>744,636</u>	<u>923,477</u>
<b>NET POSITION</b>		
Invested in capital assets	20	39
Restricted for debt service	123,385	119,220
Unrestricted	<u>17,232</u>	<u>13,771</u>
Total net position	<u>\$ 140,637</u>	<u>\$ 133,030</u>

See Notes to Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
(In Thousands)

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Mortgage interest income	\$ 34,468	\$ 44,326
Investment income	3,212	3,312
Gain on sale of investments	2,830	-
Gain on sale of loans receivable	-	973
Fee income	2,294	1,096
Total revenues	<u>42,804</u>	<u>49,707</u>
OPERATING EXPENSES		
Interest expense	25,960	33,330
Agency grants	1,464	279
Amortization of deferred bond financing costs	1,907	1,804
Administrative and operating expenses	4,047	4,558
Salaries and benefits	3,102	2,903
Depreciation	19	21
Total expenses	<u>36,499</u>	<u>42,895</u>
OPERATING INCOME	<u>6,305</u>	<u>6,812</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	11,287	12,803
Settlement funds	1,000	1,940
Investment income	292	960
Federal grants	(11,877)	(13,156)
Total nonoperating revenues (expenses)	<u>702</u>	<u>2,547</u>
INCOME BEFORE TRANSFERS	<u>7,007</u>	<u>9,359</u>
TRANSFERS		
Transfers in from Dept. of Commerce	628	401
Transfers out to Industrial Commission	(28)	(29)
CHANGE IN NET POSITION	<u>7,607</u>	<u>9,731</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>133,030</u>	<u>123,299</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 140,637</u>	<u>\$ 133,030</u>

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
(In Thousands)

	2013	2012
<b>OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 235,007	\$ 222,078
Proceeds from sale of loans receivable	92,845	23,273
Interfund mortgages loan purchases and sales	41,313	-
Grant funds received in advance	485	-
Payment of grants	(1,529)	(182)
Payments to service providers		
State agencies	(361)	(399)
Mortgage loan purchases	(147,438)	(131,568)
Other	(4,725)	(5,221)
Payments to employees	(3,101)	(2,895)
Payment of rebate to IRS	-	(926)
Net cash provided (used) by operating activities	212,496	104,160
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Principal payments on loan from Bank of North Dakota	(121,406)	(63,791)
Principal payments on bonds payable	(209,045)	(246,535)
Proceeds from loan borrowings from Bank of North Dakota	95,258	62,427
Proceeds from bond issuance	65,910	122,475
Interest paid on loans and bonds	(29,902)	(36,562)
LEPP funds	1,000	-
Payment of bond issue costs	(658)	(958)
Proceeds from settlement	-	1,940
Proceeds from federal grants	11,287	14,803
Payment of federal grants	(11,877)	(13,156)
Transfers from Department of Commerce	628	401
Transfers to Industrial Commission	(28)	(29)
Net cash provided (used) for noncapital financing activities	(198,833)	(158,985)
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(92,845)	(1,030)
Proceeds from sale of investments	89,585	53
Interest received from investments	976	857
Net cash provided by for investing activities	(2,284)	(120)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	11,379	(54,945)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	154,144	209,089
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 165,523	\$ 154,144
<b>CASH AND CASH EQUIVALENTS - UNRESTRICTED</b>	\$ 4,402	\$ 3,281
<b>CASH AND CASH EQUIVALENTS - RESTRICTED</b>	161,121	150,863
	\$ 165,523	\$ 154,144

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
(In Thousands)

	2013	2012
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 6,305	\$ 6,812
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	19	21
Amortization		
Deferred bond financing costs	1,907	1,803
Original issue discounts and premiums	(1,663)	(1,233)
Service release premium	1,109	1,075
Reclassification of interest income/expense to other activities	26,248	33,457
Changes in assets and liabilities:		
Decrease in due from HUD	3	52
(Increase) decrease in due from State Agencies	111	(136)
(Increase) decrease in other receivables	101	9
(Increase) decrease in service release premium	(760)	(837)
(Increase) decrease in prepaid expenses	(29)	12
(Increase) decrease in loan interest receivable	835	384
(Increase) decrease in loans receivable	176,855	63,956
Increase (decrease) in due to HUD	(68)	45
Increase in due to State Agencies	(36)	(43)
Decrease in rebate due to IRS	(8)	(961)
Increase (decrease) in other liabilities	(95)	(15)
Increase in compensated absences	5	10
Increase funds held in trust	1,172	(251)
Increase (decrease) revolving loan fund received in advance	185	-
Increase (decrease) grant funds received in advance	300	-
Net cash provided (used) by operating activities	\$ 212,496	\$ 104,160
Non-cash disclosures:		
Increase (decrease) in fair value of investments	\$ (693)	\$ 59

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF APPROPRIATIONS**  
**BIENNIUM ENDED JUNE 30, 2013**  
(In Thousands)

	2011-2013 Appropriations Original	2011-2013 Appropriations As Adjusted	2011-2013 Expenditures	Unexpended Appropriations
Administrative Expenses:				
Salaries, wages and benefits	\$ 6,516	\$ 6,516	\$ 6,008	\$ 508
Operating expenses	5,115	5,115	3,725	1,390
Grants, benefits and claims	26,859	33,800	29,468	4,332
Federal stimulus funds	-	991	991	-
Contingency	100	100	-	100
<b>Total</b>	<b>\$ 38,590</b>	<b>\$ 46,522</b>	<b>\$ 40,192</b>	<b>\$ 6,330</b>

- (1) The Agency's total appropriations of \$46,522 consist of funding of \$31,166 from federal funds and \$15,356 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 6 of SB 2015. As of June 30, 2013, the Agency used \$7,932 in continuing appropriations for grants not included in the original appropriations.
- (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 position follows (in thousands):

	2013	2012
Total expenditures	\$ 20,256	\$ 19,936
Less: Grants, benefits and claims	(15,026)	(15,433)
Administrative and operating expenses relating to		
Rental, Homeownership Bonds and Agency expenses	812	1,883
Amortization of service release premium	1,107	1,075
Depreciation	19	21
Total administrative and operation expenses, salaries and benefits, and depreciation	<b>\$ 7,168</b>	<b>\$ 7,482</b>

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principal Activity**

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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

**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.

**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 position, revenues, and expenses. The funds account for the flow of resources of carrying on specific activities in accordance with laws, regulations, or debt restrictions.

The Agency's funds are:

*Agency Operating Funds*

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

*Homeownership Bond Funds*

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

**Basis of Accounting and Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted using the economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Net position is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. When both restricted and unrestricted net position are available for use, generally it is the Agency's policy to use restricted net position first, and then unrestricted net position 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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

**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 net position.

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 from the financial statements.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

**Mortgage Loans Receivable**

Mortgage loans receivable are recorded at amounts advanced less principal payments and, in the Homeownership Bond Fund, net of purchase discounts. 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 three to five 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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

**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, 2013 and 2012 were \$16,762 and \$15,286, 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, 2013 and 2012 were \$16,520 and \$15,026, 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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

The carrying amount of the Agency's cash and cash equivalents are reported on the balance sheets at June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 4,402	\$ 3,022
Cash and cash equivalents held in trust	-	259
	<u>\$ 4,402</u>	<u>\$ 3,281</u>
Total cash and cash equivalents		
Restricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 12,118	\$ 12,004
Deposits at Wells Fargo	229	-
Cash and cash equivalents held in trust	38,153	38,330
Fixed rate investment agreements reported as cash equivalents	110,621	100,529
	<u>\$ 161,121</u>	<u>\$ 150,863</u>
Total cash and cash equivalents		

**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, 2013:

	<u>Total Market Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>More Than 10 Years</u>
Federal National Mortgage Association Agency Bond	\$ 5,133	\$ -	\$ 5,133	\$ -	\$ -
US Treasury Bonds	6,132	-	3,419	2,713	-
Mortgage Backed Securities	<u>4,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,367</u>
Total Debt Securities	<u>\$ 15,632</u>	<u>\$ -</u>	<u>\$ 8,552</u>	<u>\$ 2,713</u>	<u>\$ 4,367</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

The following shows the investments by investment type, amount and the duration at June 30, 2012:

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

**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 U.S. Treasury Bonds are not rated. The following represents the Agency's ratings as of June 30, 2013:

	<u>S&amp;P Credit Rating AA+</u>	<u>Total Market Value</u>
Federal National Mortgage Association	<u>\$ 5,133</u>	\$ 5,133
U.S. Treasury Bonds		6,132
Mortgage Backed Securities		<u>4,367</u>
<b>Total Debt Securities</b>		<b><u>\$ 15,632</u></b>

The following represents the Agency's ratings as of June 30, 2012:

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

Agency Operating Fund investment securities with a carrying amount of approximately \$15,632 and \$13,065 at June 30, 2013 and 2012, were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**NOTE 4 LOANS RECEIVABLE**

Loans receivable at June 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Restricted:		
Agency operating funds	\$ 15,416	\$ 39,358
Less: current portion	<u>1,319</u>	<u>1,030</u>
	<u>\$ 14,097</u>	<u>\$ 38,328</u>
Restricted:		
Homeownership bond funds	\$ 663,949	\$ 816,860
Less: current portion	<u>15,408</u>	<u>17,494</u>
	<u>\$ 648,541</u>	<u>\$ 799,366</u>

Mortgage loans are secured by first liens on real property.

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

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

Included in Homeownership and Agency mortgage loans are loans totaling \$466 which have been foreclosed on and are owned by the Agency (REO), \$113 in real estate loans in judgment (REJ), and 32 loans totaling \$2,459 were in the foreclosure process at June 30, 2013. At June 30, 2012, Homeownership and Agency mortgage loans included \$715 of REO loans, \$40 in real estate loans in judgment, and 59 loans totaling \$4,625 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 RECEIVABLES AND PAYABLES**

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

	<u>2013</u>	<u>2012</u>
Due from HUD	<u>\$ 110</u>	<u>\$ 113</u>
Due to HUD	<u>\$ 8</u>	<u>\$ 76</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**NOTE 6 EQUIPMENT**

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

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance June 30, 2011	\$ 197	\$ 137	<u>\$ 60</u>
Additions	<u>-</u>	<u>21</u>	
Balance June 30, 2012	197	158	<u>\$ 39</u>
Additions	<u>-</u>	<u>19</u>	
Balance June 30, 2013	<u>\$ 197</u>	<u>\$ 177</u>	<u>\$ 20</u>

**NOTE 7 OTHER RECEIVABLES**

A detail of other receivables is as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted:		
Receivable from developers	\$ 409	\$ 102
Accounts receivable	<u>174</u>	<u>581</u>
	<u>\$ 583</u>	<u>\$ 683</u>
Restricted		
Accounts receivable	<u>\$ 34</u>	<u>\$ 33</u>

**NOTE 8 RELATED PARTY TRANSACTIONS**

The Agency had the following transactions with related parties as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents - unrestricted		
Bank of North Dakota	<u>\$ 4,402</u>	<u>\$ 3,022</u>
Cash and cash equivalents - restricted		
Bank of North Dakota	<u>\$ 12,118</u>	<u>\$ 12,004</u>
Due from state agencies		
Department of Commerce	\$ 50	\$ 50
Housing Incentive Fund	<u>2</u>	<u>113</u>
	<u>\$ 52</u>	<u>\$ 163</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

	2013	2012
Due to state agencies		
Information Technology Department	\$ 6	\$ 6
Attorney General	2	1
Department of Transportation	1	1
Bank of North Dakota	4	48
North Dakota State Radio	1	1
North Dakota Tax Department	8	-
Office of Management and Budget	-	1
	\$ 22	\$ 58
Loans payable to the Bank of North Dakota	\$ 8,653	\$ 34,801
Transfers in		
Department of Commerce	\$ 628	\$ 401
Transfers out		
Industrial Commission	\$ 28	\$ 29
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 304	\$ 178
Information Technology Department		
Telephone	26	26
Data processing	52	57
Attorney General		
Legal fees	16	23
Office of Management and Budget		
Supplies and conferences	11	15
Risk management premium	2	2
Indirect cost allocation	6	-
Department of Transportation		
Travel	13	14
North Dakota State Radio Communications		
NCIC access	5	5
Housing Incentive Fund		
Administration and support	154	137

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**NOTE 9 OTHER LIABILITIES**

A detail of other liabilities is as follows:

	<u>2013</u>	<u>2012</u>
Remarketing fees	\$ 40	\$ 50
Commitment fees	212	224
Accounts Payable	494	555
NIPB Fee	8	-
Trustee fees	98	117
	<u>\$ 852</u>	<u>\$ 946</u>

**NOTE 10 COMPENSATED ABSENCES**

A summary of compensated absences follows:

	<u>2013</u>	<u>2012</u>
Beginning balance, July 1	\$ 258	\$ 248
Additions	229	183
Reductions	<u>(224)</u>	<u>(173)</u>
Ending balance, June 30	<u>\$ 263</u>	<u>\$ 258</u>
Amounts due within one year	<u>\$ 173</u>	<u>\$ 164</u>

**NOTE 11 BONDS PAYABLE**

**Change in Bonds Payable**

A summary of changes in bonds payable follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Amounts Due Within One Year</u>
Homeownership bond funds, par	\$ 834,125	\$ 64,510	\$ 209,045	\$ 689,590	\$ 11,046
Premium on bond funds	6,590	1,400	1,662	6,328	404
Homeownership bond funds, net	<u>\$ 840,715</u>	<u>\$ 65,910</u>	<u>\$ 210,707</u>	<u>\$ 695,918</u>	<u>\$ 11,450</u>
	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Amounts Due Within One Year</u>
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	<u>\$ 966,008</u>	<u>\$ 122,475</u>	<u>\$ 247,768</u>	<u>\$ 840,715</u>	<u>\$ 7,642</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

**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 resolution.

**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>
2014	\$ 11,450	\$ 26,655	\$ 38,105
2015	18,280	26,293	44,573
2016	24,235	25,689	49,924
2017	25,755	24,796	50,551
2018	25,495	23,858	49,353
2019-2023	113,860	105,399	219,259
2024-2028	105,245	83,854	189,099
2029-2033	122,715	60,763	183,478
2034-2038	158,620	32,003	190,623
2039-2043	83,936	5,803	89,739
Premiums	6,327	(6,327)	-
	<u>\$ 695,918</u>	<u>\$ 408,786</u>	<u>\$ 1,104,704</u>

**Schedules of Bonds Payable**

The following summarizes the Agency's bonds payable outstanding at June 30, 2013 and 2012. 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>2013</u>	<u>2012</u>
Series 2001C			
Term bond 7/1/22	5.30	\$ -	\$ 2,165
Term bond 7/1/33 (Not Reoffered)	5.40	-	1,065
Term bond 1/1/34	5.40	-	2,410
Series 2003B			
Term bond 7/1/34	Variable	-	14,205
Term bond 1/1/35	Variable	-	4,945

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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	Interest Rate	2013	2012
<b>Series 2004C</b>			
Term bond 7/1/24	5.20	\$ -	\$ 1,295
Term bond 1/1/29	5.25	-	1,050
Term bond 1/1/35 (Not Reoffered)	5.30	-	555
PAC Term bond 1/1/35	Variable	16,670	20,185
Term bond 7/1/35	5.30	-	625
<b>Series 2005A</b>			
Term bond 7/1/24	Variable	23,100	23,100
Term bond 1/1/36	Variable	4,425	13,770
<b>Series 2005CD</b>			
Serial bonds 7/1/06 - 7/1/16	3.05 - 4.45	2,775	6,845
Term bond 1/1/29	4.7	-	2,885
Term bond 1/1/36	Variable	12,000	12,000
<b>Series 2006A</b>			
Serial bonds 7/1/07 - 7/1/16	3.85 - 4.75	-	5,895
Term bond 7/1/21	4.85	-	1,925
Term bond 7/1/26	4.95	-	2,785
Term bond 7/1/31	5	-	1,690
Term bond 1/1/37 (Premium)	5.5	5,590	9,545
Term bond 7/1/37	Variable	30,165	30,210
Premium (discount)		1,022	1,110
<b>Series 2007AB</b>			
Serial bonds 7/1/08 - 7/1/17	3.7 - 4.45	3,885	3,885
Term bond 7/1/21	4.6	1,235	3,085
Term bond 7/1/26	4.7	1,930	4,845
Term bond 7/1/31	4.75	1,950	4,900
Term bond 1/1/37 (Premium)	5.5	16,380	19,965
Term bond 7/1/37	4.8	3,265	10,425
Premium (discount)		757	1,338
<b>Series 2007CD</b>			
Serial bonds 7/1/08 - 7/1/17	3.85 - 4.85	4,040	4,040
Term bond 7/1/22	5.2	2,670	5,195
Term bond 7/1/27	5.25	3,455	6,715
Term bond 1/1/38 (Premium)	5.75	14,250	18,140
Term bond 7/1/38	5.35	6,695	14,795
Premium (discount)		520	876
<b>Series 2008 A</b>			
Serial bonds 7/1/09 - 7/1/18	2.6 - 4.9	495	3,625
Term bond 7/1/23	5.4	-	1,650
Term bond 7/1/28	5.65	-	2,165
Term bond 7/1/32	5.8	-	510
Term bond 7/1/38 (Premium)	5.75	5,825	7,625
Term bond 1/1/39	Variable	13,700	13,700
Premium (discount)		513	545

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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	Interest Rate	2013	2012
Series 2008 B			
Term bond 07/1/2038	Variable	\$ 12,735	\$ 12,735
Series 2008 D			
Serial bonds 7/1/10 - 7/1/18	2.65 - 4.65	10,365	12,700
Term bond 7/1/23	5.15	5,870	8,790
Term bond 7/1/28	5.4	6,055	11,405
Term bond 7/1/33	5.55	4,225	14,920
Term bond 1/1/39	5.625	-	9,280
Term bond 7/1/39	Variable	21,850	21,850
Series 2009 AB			
Serial bonds 1/1/10 - 7/1/19	.75 - 4.10	28,970	33,175
Term bond 7/1/34	5.35	-	9,320
Term bond 7/1/39	5.45	-	6,095
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	11,570	12,745
PAC Term Bond 1/1/2029 (Premium)	5.25	6,020	7,300
Term bond 1/1/41 (Premium)	4.44	7,420	8,810
Term bond 7/1/41	3.96	29,310	34,760
Term bond 7/1/26	4.75	3,200	6,240
Premium (discount)		465	587
Series 2010 AB			
Serial bonds 7/1/11 - 7/1/21	.75 - 4.05	12,100	13,365
Term bond 7/1/26	4.45	3,490	5,745
PAC Term Bond 7/1/2028 (Premium)	5	7,070	8,225
Term bond 7/1/41	3.96	39,860	44,990
Premium (discount)		344	413
Series 2010 CD			
Serial bonds 7/1/12 - 7/1/20	.90 - 3.40	4,735	5,330
Term bond 7/1/26	4.125	3,605	4,350
Term bond 1/1/29 (Premium)	4.50	4,405	4,780
Term bond 7/1/41	3.16	21,300	22,970
Premium (discount)		236	269
Series 2010 EF			
Serial bonds 7/1/11 - 7/1/20	.60 - 3.45	10,475	10,550
Serial bonds 7/1/11 - 7/1/15	1.6 - 3.2	-	545
Term bond 7/1/25	4.375	4,590	6,185
Term bond 7/1/30	4.75	5,815	7,845
Term bond 7/1/240	5.05	10,280	13,890
PAC Term Bond 7/1/2041 (Premium)	4.5	8,755	9,965
PAC Term Bond 1/1/2035 (Premium)	4.5	11,475	12,160
Premium (discount)		663	845

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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	Interest Rate	2013	2012
<b>Series 2011 AB</b>			
Serial bonds 7/1/12 - 7/1/22	.35 - 4.0	\$ 19,435	\$ 21,230
Term bond 1/1/25	4.45	3,425	6,000
Term bond 1/1/28 (Premium)	4.5	7,640	8,280
Term bond 1/1/31	3.96	8,950	9,870
Term bond 7/1/41	3.96	39,580	43,730
Premium (discount)		450	527
<b>Series 2011 CD</b>			
Serial bonds 1/1/13 - 7/1/22	.85 - 3.7	6,970	7,270
Term bond 1/1/26	4.125	2,600	2,765
Term bond 1/1/28 (Premium)	4.25	2,700	2,700
Term bond 7/1/41	3.96	18,880	19,100
Premium (discount)		75	80
<b>Series 2012 AB</b>			
Serial bonds 7/1/13 - 7/1/21	0.6 - 3.05	14,510	-
Serial bonds 7/1/21 - 7/1/24	2.75 - 3.05	6,165	-
Term bond 7/1/27	3.35	6,125	-
Term bond 7/1/32	3.6	11,130	-
Term bond 7/1/34	3.75	4,640	-
Term bond 7/1/42 (Premium)	3.75	19,050	-
Premium (discount)		1,283	-
		<u>\$ 695,918</u>	<u>\$ 840,715</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 \$695,918 maturing at various times from January 1, 2014 through July 1, 2042. 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 \$238,645 and \$282,920, 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 2013 A Housing Finance Program Bond Funds totaling \$69,970 subsequent to year end.

The Agency securitized mortgage loans to create mortgage backed securities which were sold for proceeds of \$21,597 subsequent to year end.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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**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 issuance<sup>2</sup>, the agency entered into several cash flow hedges or swaps in connection with various variable-rate housing bond series<sup>1</sup>. 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<sup>6</sup>. 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 issuance<sup>2</sup> and maturity date<sup>3</sup>. Some of the swaps have optional termination dates<sup>15</sup>. 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)<sup>7</sup> plus a fixed percentage<sup>8</sup> on the swap notional amount<sup>4</sup>. On the other hand, the bond's variable-rate<sup>9</sup> 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 (Bond Market Association) 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 below<sup>14</sup>.

**Credit Risk**

As of June 30, 2013 and 2012, 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 the 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 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, 2013 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$2,632 and the swap providers owed the Agency a variable rate on the notional amounts of \$272 making the net payment that the Agency owe the swap providers \$2,360.

**Fair Value**

Due to the difference in the variable rate indices, the swaps had a net negative fair value<sup>10</sup> of \$12,866 and \$18,580 as of June 30, 2013 and 2012. 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, 2013 and 2012. The coupon on the government's

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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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 rate<sup>6</sup> and the synthetic rate<sup>12</sup> as of June 30, 2013 and 2012. 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 termination 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.

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The terms of the interest rate swaps at June 30, 2013 are as follows:

1	Bond Series	Bonds Called	2004 C	2005 C	2006 A
2	Issuance Date	4/1/2004	6/10/2004	9/21/2005	5/4/2006
3	Maturity Date	7/1/2035	7/1/2014	1/1/2036	7/1/2016
4	Notional Amount	12,990	1,075	12,000	30,210
5	Variable-rate Bonds	N/A	1,075	12,000	30,210
6	Fixed Rate	3.980%	4.095%	3.889%	3.955%
7	LIBOR Percentage	63.00%	63.00%	63.00%	63.00%
8	Additional Percentage	0.34%	0.34%	0.310%	0.310%
9	Bonds Variable-rate	N/A	0.17000%	0.21000%	0.17000%
10	Fair Value	(228)	(38)	(1,059)	(3,394)
11	Percentage of LIBOR	0.34000%	0.34000%	0.31000%	0.31000%
12	Synthetic Rate	3.64000%	3.92500%	3.78900%	3.81500%
13	Actual Synthetic Rate	N/A	4.06597%	3.77069%	3.82462%
14	Change in Fair Value	452	60	360	989
15	Optional Termination Date	7/1/2013	N/A	1/1/2016	N/A
1	Bond Series	2008 A	2008 B	2008 D	2009 B
2	Issuance Date	2/26/2008	2/26/2008	8/5/2008	7/30/2009
3	Maturity Date	1/1/2017	7/1/2038	7/1/2039	1/1/2025
4	Notional Amount	13,700	10,285	21,850	40,605
5	Variable-rate Bonds	13,700	12,735	21,850	47,745
6	Fixed Rate	3.198%	4.725%	3.919%	3.108%
7	LIBOR Percentage	63.00%	100.00%	63.70%	64.70%
8	Additional Percentage	0.32%	0.00%	0.20%	0.23%
9	Bonds Variable-rate	0.17000%	0.17000%	0.15000%	0.17000%
10	Fair Value	(1,277)	(1,446)	(2,776)	(2,649)
11	Percentage of LIBOR	0.32000%	0.00000%	0.20000%	0.23000%
12	Synthetic Rate	3.04800%	4.89500%	3.86900%	3.04800%
13	Actual Synthetic Rate	3.01836%	5.08106%	3.77878%	2.86882%
14	Change in Fair Value	367	668	889	1,129
15	Optional Termination Date	N/A	1/1/2020	1/1/2018	7/1/2016

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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The terms of the interest rate swaps at June 30, 2012 are as follows:

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	N/A	N/A
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	4.05	3.76
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	0.310%	0.310%	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		

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**Swap Payments and Associated Debt**

Using rates as of June 30, 2013, 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, 2013. 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		
2014	\$ 17,980	\$ 219	\$ 4,297	\$ 22,496
2015	4,305	201	4,141	8,647
2016	3,410	195	4,023	7,628
2017	43,650	132	2,624	46,406
2018	2,360	116	2,342	4,818
2019 - 2023	22,585	486	9,937	33,008
2024 - 2028	9,275	319	6,937	16,531
2029 - 2033	8,015	266	5,925	14,206
2034 - 2038	19,270	132	3,193	22,595
2039 - 2043	8,420	8	193	8,621
	<u>\$ 139,270</u>	<u>\$ 2,074</u>	<u>\$ 43,612</u>	<u>\$ 184,956</u>

**NOTE 13 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, 2013 and 2012:

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	34,801
Principal payments on advance from Bank of North Dakota	(121,406)
Loan advance from Bank of North Dakota	<u>95,258</u>
Balance June 30, 2013	<u>\$ 8,653</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2013, 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, 2014. The line of credit bears interest at 1% 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.

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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 credit 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 paid 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 and is currently contributing the employees' 4% share. Effective January 1, 2012, the employee's share was increased by 1% to 5%. Effective January 1, 2013, the employee's share was increased by 1% to 6%. 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. Effective January 1, 2013, the North Dakota Housing Finance Agency is required to contribute 6.12% 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 the 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, 2013, 2012, and 2011 were \$269, \$215, and \$192.

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.

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**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.

	2013	2012
Commitments to extend credit	\$ 44,089	\$ 81,059
Loan Acquisition Fund	\$ 91	\$ 17,650

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.

Of the \$44,089 and \$81,059 commitments to extend credit as of June 30, 2013 and 2012, \$22,815 and \$57,041 would qualify for Ginnie Mae securitization. The permanent financing for the committed government insured loans will be determined based on the cost availability of bond proceeds as compared to the current market value of a Ginnie Mae Mortgage Backed Security.

As of June 30, 2013 and 2012, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$400 and \$243, respectively.

**NOTE 16 REBATE DUE TO IRS**

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

	2013	2012
Series 07 AB	\$ 80	\$ 88

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A summary of the rebate due to IRS follows:

	2013	2012
Beginning balance, July 1	\$ 88	\$ 1,049
Additions	-	-
Reductions	(8)	(961)
Ending balance, June 30	\$ 80	\$ 88
Amounts due within one year	\$ -	\$ -

**NOTE 17 FUND NET POSITION**

Based on certain bond covenants, all assets and fund net position 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 position for this amount. All Agency net position is 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 position to several other financial statement factors and major investors monitor the amount of net position 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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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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>	
2014	\$ 225
2015	213
2016	213
2017	213
2018	213
Later	<u>213</u>
	<u>\$ 1,290</u>

Total rental expense was \$225 for the years ended June 30, 2013 and 2012.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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(In Thousands)

**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 as of and for the year ended June 30, 2013, was as follows:

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
<b>Balance Sheet</b>				
Current assets - other	\$ 21,935	\$ 169,831	\$ (5,362)	\$ 186,404
Capital assets - net	20	-	-	20
Noncurrent assets - other	19,270	666,713	-	685,983
Total assets	<u>41,225</u>	<u>836,544</u>	<u>(5,362)</u>	<u>872,407</u>
Deferred outflow of resources	-	12,866	-	12,866
Current liabilities - other	21,398	28,611	(5,362)	44,647
Noncurrent liabilities - other	2,575	697,414	-	699,989
Total liabilities	<u>23,973</u>	<u>726,025</u>	<u>(5,362)</u>	<u>744,636</u>
Invested in capital assets	20	-	-	20
Net position - unrestricted	17,232	-	-	17,232
Net position - restricted	-	123,385	-	123,385
Total net position	<u>\$ 17,252</u>	<u>\$ 123,385</u>	<u>\$ -</u>	<u>\$ 140,637</u>
<b>Statement of Revenues, Expenses and Change in Fund Net Position</b>				
<b>Operating revenues</b>				
Mortgage interest income	\$ 842	\$ 33,626	\$ -	\$ 34,468
Investment income	-	3,212	-	3,212
Gain on sale of investments	2,830	-	-	2,830
Fee income	6,424	-	(4,130)	2,294
Depreciation	(19)	-	-	(19)
Other operating expenses	(8,032)	(32,578)	4,130	(36,480)
Operating income	<u>2,045</u>	<u>4,260</u>	<u>-</u>	<u>6,305</u>
<b>Nonoperating revenues (expenses)</b>				
Federal grants	11,287	-	-	11,287
Settlement funds	1,000	-	-	1,000
Investment income	292	-	-	292
Federal grants	(11,877)	-	-	(11,877)
Transfers	600	-	-	600
Change in net position	<u>3,347</u>	<u>4,260</u>	<u>-</u>	<u>7,607</u>
Total net position, beginning of year	13,810	119,220	-	133,030
Equity transfer in (out)	<u>95</u>	<u>(95)</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 17,252</u>	<u>\$ 123,385</u>	<u>\$ -</u>	<u>\$ 140,637</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
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	Agency Operating Funds	ownership Bond Funds	Eliminations	Total Enterprise
Statement of Cash Flows				
Net cash from operating activities	\$ 28,459	\$ 184,046	\$ (9)	\$ 212,496
Net cash used for noncapital financing activities	(26,053)	(172,789)	9	(198,833)
Net cash from investing activities	(2,284)	-	-	(2,284)
Change in cash and cash equivalents	122	11,257	-	11,379
Cash and cash equivalents, beginning of year	15,285	138,859	-	154,144
Cash and cash equivalents, end of year	<u>\$ 15,407</u>	<u>\$ 150,116</u>	<u>\$ -</u>	<u>\$ 165,523</u>

Segment information as of and for the year ended June 30, 2012:

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	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	817,698	10	860,025
Total assets	<u>63,376</u>	<u>979,634</u>	<u>(5,083)</u>	<u>1,037,927</u>
Deferred outflow of resources	-	18,580	-	18,580
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 position - unrestricted	13,771	-	-	13,771
Net position - restricted	-	119,220	-	119,220
Total net position	<u>\$ 13,810</u>	<u>\$ 119,220</u>	<u>\$ -</u>	<u>\$ 133,030</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Statement of Revenues, Expenses and Change in Fund Net Position				
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 position	<u>3,838</u>	<u>5,893</u>	<u>-</u>	<u>9,731</u>
Total net position, beginning of year	8,632	114,667	-	123,299
Equity transfer in (out)	<u>1,340</u>	<u>(1,340)</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 13,810</u>	<u>\$ 119,220</u>	<u>\$ -</u>	<u>\$ 133,030</u>
Statement of Cash Flows				
Net cash from operating activities	\$ 1,996	\$ 102,215	\$ (51)	\$ 104,160
Net cash used for noncapital fir financing activities	1,821	(160,857)	51	(158,985)
Net cash from investing activities	(120)	-	-	(120)
Change in cash and cash equivalents	3,697	(58,642)	-	(54,945)
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>

**NOTE 21 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2013 AND 2012  
(In Thousands)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statements 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pension for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement - Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect this Statement will have on the entity's financial statements.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
<b>ASSETS</b>								
<b>CURRENT ASSETS - UNRESTRICTED</b>								
Cash and cash equivalents	\$ 4,402	\$ -	\$ -	\$ -	\$ 4,402	\$ -	\$ 4,402	\$ 3,281
Due from State Agencies Receivables	52	-	-	-	52	-	52	163
Interest								
Loans	41	-	-	-	41	-	41	106
Investments	131	-	-	-	131	-	131	122
Due from HUD	110	-	-	-	110	-	110	113
Other	4,406	-	-	-	4,406	(3,823)	583	683
Current portion of service release premium	426	-	-	-	426	-	426	470
Prepaid expenses	43	16	-	16	59	-	59	32
Total unrestricted current assets	9,611	16	-	16	9,627	(3,823)	5,804	4,970
<b>CURRENT ASSETS - RESTRICTED</b>								
Cash and cash equivalents	11,005	105,264	44,852	150,116	161,121	-	161,121	150,863
Receivables								
Current portion of loans receivable	1,319	11,252	4,156	15,408	16,727	-	16,727	18,524
Interest								
Loans	-	1,832	811	2,643	2,643	-	2,643	3,412
Investments	-	65	10	75	75	-	75	61
Other	-	1,392	181	1,573	1,573	(1,539)	34	33
Total restricted current assets	12,324	119,805	50,010	169,815	182,139	(1,539)	180,600	172,893
Total current assets	21,935	119,821	50,010	169,831	191,766	(5,362)	186,404	177,863
<b>NONCURRENT ASSETS - UNRESTRICTED</b>								
Investments	2,505	-	-	-	2,505	-	2,505	1,017
Service release premium	2,668	-	-	-	2,668	-	2,668	2,972
Equipment, net	20	-	-	-	20	-	20	39
Total unrestricted noncurrent assets	5,193	-	-	-	5,193	-	5,193	4,028
<b>NONCURRENT ASSETS - RESTRICTED</b>								
Loans receivable, net of current portion	14,097	417,085	231,456	648,541	662,638	-	662,638	837,694
Investments	-	13,127	-	13,127	13,127	-	13,127	12,048
Deferred bond financing costs, net	-	3,114	1,931	5,045	5,045	-	5,045	6,294
Total restricted noncurrent assets	14,097	433,326	233,387	666,713	680,810	-	680,810	856,036
Total noncurrent assets	19,290	433,326	233,387	666,713	686,003	-	686,003	860,064
Total assets	41,225	553,147	283,397	836,544	877,769	(5,362)	872,407	1,037,927
<b>DEFERRED OUTFLOW OF RESOURCES</b>								
Financial derivative instrument	\$ -	\$ 12,866	\$ -	\$ 12,866	\$ 12,866	\$ -	\$ 12,866	\$ 18,580

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION - CONTINUED**  
**JUNE 30, 2013 AND 2012**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
<b>LIABILITIES</b>								
<b>CURRENT LIABILITIES</b>								
Due to HUD	\$ 8	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ 8	\$ 76
Due to State Agencies	22	-	-	-	22	-	22	58
Other	1,537	3,460	1,217	4,677	6,214	(5,362)	852	946
Current portion of compensated absences	173	-	-	-	173	-	173	164
Current portion of bonds payable	-	5,535	5,915	11,450	11,450	-	11,450	7,642
Loan from Bank of North Dakota	8,653	-	-	-	8,653	-	8,653	34,801
Accrued interest	-	7,705	4,779	12,484	12,484	-	12,484	16,122
Funds held in trust	11,005	-	-	-	11,005	-	11,005	9,833
Total current liabilities	<u>21,398</u>	<u>16,700</u>	<u>11,911</u>	<u>28,611</u>	<u>50,009</u>	<u>(5,362)</u>	<u>44,647</u>	<u>69,642</u>
<b>NONCURRENT LIABILITIES</b>								
Compensated absences, net of current portion	90	-	-	-	90	-	90	94
Rebate due to IRS, net of current portion	-	80	-	80	80	-	80	88
Revolving loan fund received in advance	2,485	-	-	-	2,485	-	2,485	-
Grant funds received in advance	-	-	-	-	-	-	-	2,000
Financial derivative instrument	-	12,866	-	12,866	12,866	-	12,866	18,580
Bonds payable, net of current portion	-	424,548	259,920	684,468	684,468	-	684,468	833,073
Total noncurrent liabilities	<u>2,575</u>	<u>437,494</u>	<u>259,920</u>	<u>697,414</u>	<u>699,989</u>	<u>-</u>	<u>699,989</u>	<u>853,835</u>
Total liabilities	<u>23,973</u>	<u>454,194</u>	<u>271,831</u>	<u>726,025</u>	<u>749,998</u>	<u>(5,362)</u>	<u>744,636</u>	<u>923,477</u>
<b>NET POSITION</b>								
Invested in capital assets	20	-	-	-	20	-	20	39
Restricted for debt service	-	111,819	11,566	123,385	123,385	-	123,385	119,220
Unrestricted	17,232	-	-	-	17,232	-	17,232	13,771
Total net position	<u>\$ 17,252</u>	<u>\$ 111,819</u>	<u>\$ 11,566</u>	<u>\$ 123,385</u>	<u>\$ 140,637</u>	<u>\$ -</u>	<u>\$ 140,637</u>	<u>\$ 133,030</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
<b>OPERATING REVENUES</b>								
Mortgage interest income	\$ 842	\$ 23,082	\$ 10,544	\$ 33,626	\$ 34,468	\$ -	\$ 34,468	\$ 44,326
Investment income	-	2,300	912	3,212	3,212	-	3,212	3,312
Gain on sale of investments	2,830	-	-	-	2,830	-	2,830	-
Gain on sale of loans receivable	-	-	-	-	-	-	-	973
Fee income	6,424	-	-	-	6,424	(4,130)	2,294	1,096
Total revenues	<u>10,096</u>	<u>25,382</u>	<u>11,456</u>	<u>36,838</u>	<u>46,934</u>	<u>(4,130)</u>	<u>42,804</u>	<u>49,707</u>
<b>OPERATING EXPENSES</b>								
Interest expense	-	16,108	9,852	25,960	25,960	-	25,960	33,330
Agency grants	1,464	-	-	-	1,464	-	1,464	279
Amortization of deferred bond financing costs	-	1,539	368	1,907	1,907	-	1,907	1,804
Administrative and operating expenses	3,466	3,461	1,250	4,711	8,177	(4,130)	4,047	4,558
Salaries and benefits	3,102	-	-	-	3,102	-	3,102	2,903
Depreciation	19	-	-	-	19	-	19	21
Total expenses	<u>8,051</u>	<u>21,108</u>	<u>11,470</u>	<u>32,578</u>	<u>40,629</u>	<u>(4,130)</u>	<u>36,499</u>	<u>42,895</u>
OPERATING INCOME	<u>2,045</u>	<u>4,274</u>	<u>(14)</u>	<u>4,260</u>	<u>6,305</u>	<u>-</u>	<u>6,305</u>	<u>6,812</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>								
Federal grants	11,287	-	-	-	11,287	-	11,287	12,803
Settlement funds	1,000	-	-	-	1,000	-	1,000	1,940
Investment income	292	-	-	-	292	-	292	960
Federal grants	(11,877)	-	-	-	(11,877)	-	(11,877)	(13,156)
Total nonoperating revenues (expenses)	<u>702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>702</u>	<u>-</u>	<u>702</u>	<u>2,547</u>
CHANGE IN ASSETS BEFORE TRANSFERS	<u>2,747</u>	<u>4,274</u>	<u>(14)</u>	<u>4,260</u>	<u>7,007</u>	<u>-</u>	<u>7,007</u>	<u>9,359</u>
<b>TRANSFERS</b>								
Transfer in from Department of Commerce	628	-	-	-	628	-	628	401
Transfer to Industrial Commission	(28)	-	-	-	(28)	-	(28)	(29)
CHANGE IN NET POSITION	<u>3,347</u>	<u>4,274</u>	<u>(14)</u>	<u>4,260</u>	<u>7,607</u>	<u>-</u>	<u>7,607</u>	<u>9,731</u>
TOTAL NET POSITION, BEGINNING 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>
EQUITY TRANSFER IN (OUT)	<u>95</u>	<u>1,109</u>	<u>(1,204)</u>	<u>(95)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 17,252</u>	<u>\$ 111,819</u>	<u>\$ 11,566</u>	<u>\$ 123,385</u>	<u>\$ 140,637</u>	<u>\$ -</u>	<u>\$ 140,637</u>	<u>\$ 133,030</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
<b>OPERATING ACTIVITIES</b>								
Receipts from customers	\$ 15,765	\$ 157,954	\$ 65,149	\$ 223,103	\$ 238,868	\$ (3,861)	\$ 235,007	\$ 222,078
Proceeds from sale of loans receivable	92,845	-	-	-	92,845	-	92,845	23,273
Interfund mortgages loan purchases and sales	22,376	1,594	17,343	18,937	41,313	-	41,313	-
Grant funds received in advance	485	-	-	-	485	-	485	-
Payment of grants	(1,529)	-	-	-	(1,529)	-	(1,529)	(182)
Payments to service providers								
State agencies	(361)	-	-	-	(361)	-	(361)	(399)
Mortgage loan purchases	(94,645)	(34,794)	(17,999)	(52,793)	(147,438)	-	(147,438)	(131,568)
Other	(3,376)	(3,916)	(1,285)	(5,201)	(8,577)	3,852	(4,725)	(5,221)
Payments to employees	(3,101)	-	-	-	(3,101)	-	(3,101)	(2,895)
Payment of rebate to IRS	-	-	-	-	-	-	-	(926)
Net cash provided by (used for) operating activities	<u>28,459</u>	<u>120,838</u>	<u>63,208</u>	<u>184,046</u>	<u>212,505</u>	<u>(9)</u>	<u>212,496</u>	<u>104,160</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>								
Principal payments on loan from Bank of ND	(121,406)	-	-	-	(121,406)	-	(121,406)	(63,791)
Principal payments on bonds payable	-	(172,755)	(36,290)	(209,045)	(209,045)	-	(209,045)	(246,535)
Proceeds from loan borrowings from Bank of ND	95,258	-	-	-	95,258	-	95,258	62,427
Proceeds from bond issuance	-	65,910	-	65,910	65,910	-	65,910	122,475
Interest paid on loans and bonds	(302)	(19,080)	(10,520)	(29,600)	(29,902)	-	(29,902)	(36,562)
LEPP funds	1,000	-	-	-	1,000	-	1,000	-
Payment of bond issue costs	-	(667)	-	(667)	(667)	9	(658)	(958)
Proceeds from settlement	-	-	-	-	-	-	-	1,940
Proceeds from federal grants	11,287	-	-	-	11,287	-	11,287	14,803
Payment of federal grants	(11,877)	-	-	-	(11,877)	-	(11,877)	(13,156)
Transfers from Department of Commerce	628	-	-	-	628	-	628	401
Transfers to Industrial Commission	(28)	-	-	-	(28)	-	(28)	(29)
Interfund transfer in (out)	(613)	613	-	613	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>\$ (26,053)</u>	<u>\$ (125,979)</u>	<u>\$ (46,810)</u>	<u>\$ (172,789)</u>	<u>\$ (198,842)</u>	<u>\$ 9</u>	<u>\$ (198,833)</u>	<u>\$ (158,985)</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
INVESTING ACTIVITIES								
Purchase of investments	\$ (92,845)	\$ -	\$ -	\$ -	\$ (92,845)	\$ -	\$ (92,845)	\$ (1,030)
Proceeds from sale of investments	89,585	-	-	-	89,585	-	89,585	53
Interest received from investments	976	-	-	-	976	-	976	857
Net cash provided by (used for) investing activities	<u>(2,284)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,284)</u>	<u>-</u>	<u>(2,284)</u>	<u>(120)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	122	(5,141)	16,398	11,257	11,379	-	11,379	(54,945)
CASH AND CASH EQUIVALENTS AT BEGINNING 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>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,407</u>	<u>\$ 105,264</u>	<u>\$ 44,852</u>	<u>\$ 150,116</u>	<u>\$ 165,523</u>	<u>\$ -</u>	<u>\$ 165,523</u>	<u>\$ 154,144</u>
Cash and Cash Equivalents - Unrestricted	\$ 4,402	\$ -	\$ -	\$ -	\$ 4,402	\$ -	\$ 4,402	\$ 3,281
Cash and Cash Equivalents - Restricted	11,005	105,264	44,852	150,116	161,121	-	161,121	150,863
	<u>\$ 15,407</u>	<u>\$ 105,264</u>	<u>\$ 44,852</u>	<u>\$ 150,116</u>	<u>\$ 165,523</u>	<u>\$ -</u>	<u>\$ 165,523</u>	<u>\$ 154,144</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2013	2012
<b>RECONCILIATION OF OPERATING</b>								
<b>INCOME (LOSS) TO NET CASH PROVIDED</b>								
<b>BY (USED FOR) OPERATING ACTIVITIES</b>								
Operating income (loss)	\$ 2,045	\$ 4,274	\$ (14)	\$ 4,260	\$ 6,305	\$ -	\$ 6,305	\$ 6,812
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation	19	-	-	-	19	-	19	21
Amortization								
Deferred bond financing costs	-	1,539	368	1,907	1,907	-	1,907	1,803
Original issue discounts and premiums	-	(1,356)	(307)	(1,663)	(1,663)	-	(1,663)	(1,233)
Service release premiums	1,109	-	-	-	1,109	-	1,109	1,075
Reclassification of interest expense to other activates	302	16,060	9,886	25,946	26,248	-	26,248	33,457
Changes in assets and liabilities:								
Decrease in due from HUD	3	-	-	-	3	-	3	52
(Increase) decrease in due from State Agencies	111	-	-	-	111	-	111	(136)
(Increase) decrease in other receivables	(707)	(541)	1,080	539	(168)	269	101	9
(Increase) decrease in service release premium	(760)	-	-	-	(760)	-	(760)	(837)
(Increase) decrease in prepaid expenses	(13)	(16)	-	(16)	(29)	-	(29)	12
(Increase) decrease in loan interest receivable	65	584	186	770	835	-	835	384
(Increase) decrease in loans receivable	25,730	99,354	51,771	151,125	176,855	-	176,855	63,956
Increase (decrease) in due to HUD	(68)	-	-	-	(68)	-	(68)	45
Increase (decrease) in due to State Agencies	(36)	-	-	-	(36)	-	(36)	(43)
Increase (decrease) in rebate due to IRS	-	(8)	-	(8)	(8)	-	(8)	(961)
Increase (decrease) in other liabilities	(1,003)	948	238	1,186	183	(278)	(95)	(15)
Increase (decrease) in compensated absences	5	-	-	-	5	-	5	10
Increase (decrease) funds held in trust	1,172	-	-	-	1,172	-	1,172	(251)
Increase (decrease) revolving loan fund received in advance	185	-	-	-	185	-	185	-
Increase (decrease) grant funds received in advance	300	-	-	-	300	-	300	-
Net cash provided by (used for) operating activities	<u>\$ 28,459</u>	<u>\$ 120,838</u>	<u>\$ 63,208</u>	<u>\$ 184,046</u>	<u>\$ 212,505</u>	<u>\$ (9)</u>	<u>\$ 212,496</u>	<u>\$ 104,160</u>
Non-cash disclosures:								
Increase (decrease) in fair value of investments	<u>\$ (693)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (693)</u>	<u>\$ -</u>	<u>\$ (693)</u>	<u>\$ 59</u>
Fair value transfers	<u>\$ (712)</u>	<u>\$ 712</u>	<u>\$ -</u>	<u>\$ 712</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment transfers	<u>\$ 1,792</u>	<u>\$ (1,792)</u>	<u>\$ -</u>	<u>\$ (1,792)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfers associated with pledged loans	<u>\$ (1,787)</u>	<u>\$ 583</u>	<u>\$ 1,204</u>	<u>\$ 1,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Line Item #	Description	Rent		Lower Income	Lower Income	Lower Income
		Supplements - Rental Housing for Lower Income Families	Section 8 Moderate Rehabilitation Single Room Occupancy	Housing Assistance Program_Section 8 Moderate Rehabilitate ND901MR0001	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0002	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0003
<b>Assets</b>						
111	Cash - Unrestricted	\$ 139,650	\$ 22,274	\$ 54,056	\$ -	\$ 22,993
113	Cash - Other Restricted	-	429	3,376	-	1,507
<b>100</b>	<b>Total Cash</b>	<b>139,650</b>	<b>22,703</b>	<b>57,432</b>	<b>-</b>	<b>24,500</b>
122	Accounts Receivable - HUD Other Projects	94,653	-	-	-	-
125	Accounts Receivable - Miscellaneous	150	56	96	-	57
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
<b>120</b>	<b>Total Receivables, net of allowances for doubtful</b>	<b>94,803</b>	<b>56</b>	<b>96</b>	<b>-</b>	<b>57</b>
142	Prepaid Expenses and Other Assets	4,915	121	206	-	121
<b>150</b>	<b>Total Current Assets</b>	<b>239,368</b>	<b>22,880</b>	<b>57,734</b>	<b>-</b>	<b>24,678</b>
<b>160</b>	<b>Total Fixed Assets, Net of Accumulated Depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>180</b>	<b>Total Non-Current Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>190</b>	<b>Total Assets</b>	<b>\$ 239,368</b>	<b>\$ 22,880</b>	<b>\$ 57,734</b>	<b>\$ -</b>	<b>\$ 24,678</b>
<b>Liabilities and Equity</b>						
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
312	Accounts Payable <= 90 Days	2,954	185	315	-	185
331	Accounts Payable - HUD PHA Programs	-	429	3,376	-	1,507
<b>310</b>	<b>Total Current Liabilities</b>	<b>2,954</b>	<b>614</b>	<b>3,691</b>	<b>-</b>	<b>1,692</b>
<b>350</b>	<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>300</b>	<b>Total Liabilities</b>	<b>2,954</b>	<b>614</b>	<b>3,691</b>	<b>-</b>	<b>1,692</b>
508	Total Contributed Capital	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Position	-	429	3,376	-	1,507
512.1	Unrestricted Net Position	236,414	21,837	50,667	-	21,479
<b>513</b>	<b>Total Equity/Net Position</b>	<b>236,414</b>	<b>22,266</b>	<b>54,043</b>	<b>-</b>	<b>22,986</b>
<b>600</b>	<b>Total Liabilities and Equity/Net Position</b>	<b>\$ 239,368</b>	<b>\$ 22,880</b>	<b>\$ 57,734</b>	<b>\$ -</b>	<b>\$ 24,678</b>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Line Item #	Description	Rental Housing for		Lower Income	Lower Income	Lower Income
		Lower Income Families	Single Room Occupancy	Housing Assistance Program_Section 8 Moderate Rehabilitate ND901MR0001	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0002	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0003
<b>Revenue</b>						
70500	Total Tenant Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
70600	HUD PHA Operating Grants	11,112,299	61,461	176,575	-	69,599
71100	Investment Income - Unrestricted	-	15	24	-	14
72000	Investment Income - Restricted	44	3	5	-	3
<b>700</b>	<b>Total Revenue</b>	<b>11,112,343</b>	<b>61,479</b>	<b>176,604</b>	<b>-</b>	<b>69,616</b>
<b>Expenses</b>						
91100	Administrative Salaries	314,089	7,561	12,915	-	7,560
91200	Auditing Fees	7,599	193	329	-	193
91500	Employee Benefit Contribution - Administrative	116,710	2,811	4,800	-	2,810
91600	Office Expense	66,521	2,161	3,691	-	2,160
91800	Travel	21,366	129	220	-	128
91900	Other	89,508	4,644	7,940	-	4,648
<b>96900</b>	<b>Total Operating Expenses</b>	<b>615,793</b>	<b>17,499</b>	<b>29,895</b>	<b>-</b>	<b>17,499</b>
<b>97000</b>	<b>Excess Operating Revenue over Operating Expenses</b>	<b>10,496,550</b>	<b>43,980</b>	<b>146,709</b>	<b>-</b>	<b>52,117</b>
97300	Housing Assistance Payments	10,449,987	42,891	144,852	-	51,029
<b>90000</b>	<b>Total Expenses</b>	<b>11,065,780</b>	<b>60,390</b>	<b>174,747</b>	<b>-</b>	<b>68,528</b>
10100	Total Other Financing Sources (Uses)	-	-	-	-	-
<b>10000</b>	<b>Excess (Deficiency) of Operating Revenue Over (Under) Expenses</b>	<b>\$ 46,563</b>	<b>\$ 1,089</b>	<b>\$ 1,857</b>	<b>\$ -</b>	<b>\$ 1,088</b>
<b>Memo Account Information</b>						
11020	Debt Principal Payments - Enterprise Funds	\$ -	\$ -	\$ -	\$ -	\$ -
11030	Beginning Equity	189,851	21,177	52,186	19,734	21,898
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	(19,734)	-
11130	Maximum Annual Contributions Commitment (per ACC)	9,580,814	3,825	205,867	-	26,564
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	6,995,879	57,636	57,711	-	43,035
<b>11160</b>	<b>Total Annual Contributions Available</b>	<b>16,576,693</b>	<b>61,461</b>	<b>263,578</b>	<b>-</b>	<b>69,599</b>
11200	Unit Months Available	38,150	288	492	-	288
11210	Number of Unit Months Leased	38,150	261	480	-	228

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Line Item #	Description	Lower Income				
		Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0004	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0005	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0006	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0008	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0009
<b>Assets</b>						
111	Cash - Unrestricted	\$ 12,945	\$ 10,970	\$ 89,200	\$ 12,906	\$ 36,539
113	Cash - Other Restricted	1,338	-	-	1,874	-
<b>100</b>	<b>Total Cash</b>	<b>14,283</b>	<b>10,970</b>	<b>89,200</b>	<b>14,780</b>	<b>36,539</b>
122	Accounts Receivable - HUD Other Projects	-	7,240	3,047	-	4,315
125	Accounts Receivable - Miscellaneous	30	40	172	28	84
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
<b>120</b>	<b>Total Receivables, net of allowances for doubtful</b>	<b>30</b>	<b>7,280</b>	<b>3,219</b>	<b>28</b>	<b>4,399</b>
142	Prepaid Expenses and Other Assets	65	85	366	60	181
<b>150</b>	<b>Total Current Assets</b>	<b>14,378</b>	<b>18,335</b>	<b>92,785</b>	<b>14,868</b>	<b>41,119</b>
<b>160</b>	<b>Total Fixed Assets, Net of Accumulated Depreciation</b>	-	-	-	-	-
<b>180</b>	<b>Total Non-Current Assets</b>	-	-	-	-	-
<b>190</b>	<b>Total Assets</b>	<b>\$ 14,378</b>	<b>\$ 18,335</b>	<b>\$ 92,785</b>	<b>\$ 14,868</b>	<b>\$ 41,119</b>
<b>Liabilities and Equity</b>						
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
312	Accounts Payable <= 90 Days	100	131	562	92	277
331	Accounts Payable - HUD PHA Programs	1,338	-	-	1,874	-
<b>310</b>	<b>Total Current Liabilities</b>	<b>1,438</b>	<b>131</b>	<b>562</b>	<b>1,966</b>	<b>277</b>
<b>350</b>	<b>Total Noncurrent Liabilities</b>	-	-	-	-	-
<b>300</b>	<b>Total Liabilities</b>	<b>1,438</b>	<b>131</b>	<b>562</b>	<b>1,966</b>	<b>277</b>
508	Total Contributed Capital	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Position	1,338	-	-	1,874	-
512.1	Unrestricted Net Position	11,602	18,204	92,223	11,028	40,842
<b>513</b>	<b>Total Equity/Net Position</b>	<b>12,940</b>	<b>18,204</b>	<b>92,223</b>	<b>12,902</b>	<b>40,842</b>
<b>600</b>	<b>Total Liabilities and Equity/Net Position</b>	<b>\$ 14,378</b>	<b>\$ 18,335</b>	<b>\$ 92,785</b>	<b>\$ 14,868</b>	<b>\$ 41,119</b>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Line Item #	Description	Lower Income				
		Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0004	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0005	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0006	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0008	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0009
<b>Revenue</b>						
70500	Total Tenant Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
70600	HUD PHA Operating Grants	75,756	106,919	210,365	52,017	99,693
71100	Investment Income - Unrestricted	8	10	43	7	21
72000	Investment Income - Restricted	2	2	9	1	4
<b>700</b>	<b>Total Revenue</b>	<b>75,766</b>	<b>106,931</b>	<b>210,417</b>	<b>52,025</b>	<b>99,718</b>
<b>Expenses</b>						
91100	Administrative Salaries	4,095	5,355	22,996	3,780	11,340
91200	Auditing Fees	104	137	586	96	289
91500	Employee Benefit Contribution - Administrative	1,522	1,990	8,547	1,405	4,215
91600	Office Expense	1,170	1,530	6,572	1,080	3,241
91800	Travel	70	91	391	64	193
91900	Other	2,519	3,293	14,136	2,324	6,971
<b>96900</b>	<b>Total Operating Expenses</b>	<b>9,480</b>	<b>12,396</b>	<b>53,228</b>	<b>8,749</b>	<b>26,249</b>
<b>97000</b>	<b>Excess Operating Revenue over Operating Expenses</b>	<b>66,286</b>	<b>94,535</b>	<b>157,189</b>	<b>43,276</b>	<b>73,469</b>
97300	Housing Assistance Payments	65,698	93,765	153,882	42,732	71,838
<b>90000</b>	<b>Total Expenses</b>	<b>75,178</b>	<b>106,161</b>	<b>207,110</b>	<b>51,481</b>	<b>98,087</b>
10100	Total Other Financing Sources (Uses)	-	-	-	-	-
<b>10000</b>	<b>Excess (Deficiency) of Operating Revenue Over (Under) Expenses</b>	<b>\$ 588</b>	<b>\$ 770</b>	<b>\$ 3,307</b>	<b>\$ 544</b>	<b>\$ 1,631</b>
<b>Memo Account Information</b>						
11020	Debt Principal Payments - Enterprise Funds	\$ -	\$ -	\$ -	\$ -	\$ -
11030	Beginning Equity	12,352	17,434	88,916	12,358	39,211
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-
11130	Maximum Annual Contributions Commitment (per ACC)	48,914	109,619	430,271	45,580	150,118
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	26,842	-	39,483	6,437	81,096
<b>11160</b>	<b>Total Annual Contributions Available</b>	<b>75,756</b>	<b>109,619</b>	<b>469,754</b>	<b>52,017</b>	<b>231,214</b>
11200	Unit Months Available	156	204	876	144	432
11210	Number of Unit Months Leased	129	197	664	138	350

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**ADJUSTED NET WORTH CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period	<u>\$ 140,637</u>
Less:	
Itemized unacceptable assets	
1. Due from state agencies	<u>\$ (52)</u>
2.	<u>\$ -</u>
3.	<u>\$ -</u>
Total unacceptable assets	<u>\$ (52)</u>
Adjusted net worth	<u><u>\$ 140,585</u></u>

B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 10)	<u>\$ 93,308</u>
Plus:	
Outstanding balance of commitment authority issued and requested	<u>\$ 43,613</u>
Total outstanding portfolio and authority	<u>\$ 136,921</u>
Required net worth	<u><u>\$ 1,434</u></u>

C. Excess (deficit) net worth

(Adjusted net worth - required net worth)	<u><u>\$ 139,151</u></u>
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**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**INSURANCE COVERAGE SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(In Thousands)

A. Identification of affiliated Ginnie Mae issuers

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

B. Required insurance calculation

Servicing portfolio	
Ginnie Mae	\$ 113,308
Fannie Mae	1,051
Freddie Mac	-
Conventional (other)	543,858
Total servicing portfolio	658,217
Required fidelity bond coverage	1,123
Required mortgage servicing errors and omissions coverage	1,123

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	2,000

D. Excess (deficit) insurance coverage

Fidelity bond coverage	877
Required servicing errors and omissions coverage	877

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**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Federal Agency /Pass through Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Rural Housing Service Division			
Very Low to Moderate Income Housing Loans	10.410		<u>\$ 22,272,482</u>
<u>Department of Housing and Urban Development</u>			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117		61,679,464
Rent Supplements - Rental Housing for Lower Income Families	14.149		11,065,778
Housing Counseling Assistance Program	14.169		75,003
Lower Income Housing Assistance Program -			
Section 8 Moderate Rehabilitation	14.856	A	781,293
Section 8 Moderate Rehabilitation - Single room occupancy	14.249	A	60,390
Community Development Block Grants	14.228	B	1,522,086
Community Planning and Development Division			
Pass through from ND Department of Commerce			
		3173-M11PI-13	
		3316-M12PI-13	
HOME Investment Partnership Program	14.239	2816-M10PI-13	196,895
Pass through from ND Department of Commerce			
Community Development Block Grants	14.228	B    2409-NSP09	<u>238,316</u>
Total Department of Housing and Urban Development			<u>75,619,226</u>
<u>Department of Veterans Affairs</u>			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114		<u>6,134,559</u>
TOTAL			<u><u>\$104,026,267</u></u>

A Section 8 Project-Based Cluster total \$841,683.

B Community Development Block Grants CFDA #14.228 total \$1,760,402.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**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, 2013.

Very Low to Moderate Income Housing Loans	10.410	\$ 126,954,514
Mortgage Insurance - Homes	14.117	439,809,370
Veterans Housing - Guaranteed and Insured Loans	64.114	38,975,197

**NOTE 3 SUBRECIPIENTS**

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

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>		
Community Development Block Grants	14.228	\$ 1,721,790
Housing Counseling Assistance Program	14.169	75,003



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S COMMENTS REQUESTED BY  
THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE**

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

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

**Audit Report Communications:**

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

*Unmodified opinion.*

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

*Yes - A review was made of Chapter 54-17 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes.*

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

*No.*

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

*There were no prior year findings.*

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

*No.*

**Audit Committee Communications:**

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

*None.*

- 8. 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.*

- 9. Identify any significant audit adjustments.**

*We proposed an adjustment of \$770 to adjust the financial derivative instrument to fair value.*

- 10. 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.*

- 11. Identify any significant difficulties encountered in performing the audit.**

*None.*

- 12. Identify any major issues discussed with management prior to retention.**

*None.*

- 13. Identify any management consultations with other accountants about auditing and accounting matters.**

*None.*

- 14. Identify any high-risk information technology systems critical to the 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 System, Loan Tracking and the general ledger and accounting system developed by the Agency are considered to be significant information technology systems critical to 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, 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.

*Brady. Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

October 11, 2013



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITORS' 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**

To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements, and have issued our report thereon dated October 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Housing Finance Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Housing Finance Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Housing Finance Agency's internal control.

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

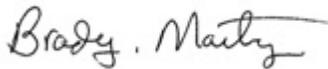
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Dakota Housing Finance Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

## **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

October 11, 2013



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited 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 North Dakota Housing Finance Agency's major federal programs for the year ended June 30, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of North Dakota Housing Finance Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of North Dakota Housing Finance Agency's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, North Dakota Housing Finance Agency, complied, in all material respects, with the types of compliance 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, 2013.

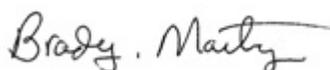
### **Report on Internal Control Over Compliance**

Management of North Dakota Housing Finance Agency, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Dakota Housing Finance Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota

October 11, 2013

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2013**

**Section I-Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  x  </u> no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)?

       yes        x   no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.410	Very Low to Moderate Income Housing Loans
14.149	Rent Supplements – Rental Housing for Lower Income Families
14.856 & 14.249	Section 8 Project-Based Cluster: Moderate Rehabilitation and Moderate Rehabilitation – Single Room Occupancy

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,270,404

Auditee qualified as a low-risk auditee?

  x   yes             no

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2013**

**Section II-Financial Statement Findings**

There are no findings which are required to be reported under this section.

**Section III – Federal Award Findings and Questioned Costs**

There are no findings which are required to be reported under this section.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF PRIOR YEARS FINDINGS**  
**JUNE 30, 2013**

There were no prior year audit findings reported for the North Dakota Housing Finance Agency.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

October 11, 2013

To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of North Dakota Housing Finance Agency, a department of the State of North Dakota, for the year ended June 30, 2013. 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 June 24, 2013. 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. As described in Note 1 to the financial statements, North Dakota Housing Finance Agency changed accounting policies related to deferred bond financing costs by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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.

The financial statement disclosures are neutral, consistent, and clear.

#### *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 clearly trivial, and communicate them to the appropriate level of management. The following material misstatement was detected as a result of our audit procedures was corrected by management:

We proposed an adjustment of \$770 to adjust the financial derivative instrument to fair value.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 October 11, 2013.

#### *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*

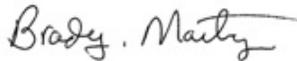
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

### Other Matters

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.

Very truly yours,

A handwritten signature in cursive script that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**

Bismarck, North Dakota