Financial Statements
June 30, 2010 and 2009

North Dakota Housing Finance Agency

NORTH DAKOTA HOUSING FINANCE AGENCY

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the **North Dakota Housing Finance Agency,** a department of the State of North Dakota as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the **North Dakota Housing Finance Agency's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of **North Dakota Housing Finance Agency** are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the financial statements of the State of North Dakota that is attributable to the transactions of **North Dakota Housing Finance Agency.** They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2010 and 2009, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **North Dakota Housing Finance Agency** as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2010 on our consideration of the **North Dakota Housing Finance Agency's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on **North Dakota Housing Finance Agency's** basic financial statements. The accompanying supplementary information on pages 41 through 55 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 56 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 of the **North Dakota Housing Finance Agency**. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Bismarck, North Dakota
October 20, 2010

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, 2010 and 2009. Please read it in conjunction with the Agency's financial statements and footnotes, which are presented within this report.

North Dakota Housing Bonds issued by North Dakota Housing Finance Agency are 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 fiscal year 2010, mortgage loans receivable increased $98,155 to $922,399. This is a net change of $214,185 in loans purchased, $118,848 of repaid principal, an increase in loan premiums/discounts of $2,914 and a decrease of $96 in mortgage loan loss reserve.
- Mortgage loans receivable had increased $55,176 to $824,244 from fiscal year 2008 to fiscal year 2009. This is the net change of $152,632 in loans purchased, $98,770 of repaid principal, a net change in loan premiums/discounts of $1,743 and an addition of $429 in mortgage loan loss reserve.
- Bonds payable increased in fiscal year 2010 by $218,157 with $435,630 new bonds issued, $218,035 bonds being called or maturing and a $562 net increase in bond premiums and discounts.
- Bonds payable decreased in fiscal year 2009 by $77,558 to $849,586 with $130,000 new bonds issued and $206,925 called or matured and $633 premium/discount amortized.
- The loan from Bank of North Dakota was paid in full as of June 30, 2010. Additional funds were obtained throughout fiscal year 2010 in the amount of $133,519 and $136,285 principal payments were made.
- The loan from Bank of North Dakota decreased in fiscal year 2009 $821 to $2,766 with $45,641 new loans obtained and $46,462 principal payments made.
- The Agency's net assets increased in fiscal year 2010 by $9,732 to $115,131 as a result of this year's program operations and financing activities.
- The Agency's net assets increased in fiscal year 2009 by $7,630 to $105,399 as a result of the year's program operations and financing activities.
- Income before transfers for fiscal year 2010 of $9,762 was up from fiscal year 2009 by $2,101 as a result of an increase in mortgage interest income and decrease in interest expense.
- Fiscal year 2009 income before transfers of $7,661 was down from the prior year by $1,351 as a result of a decrease in investment income.
- Operating revenues of $53,417 were down $385 from fiscal year 2009. This was due to a decrease in investment income with an offsetting increase in mortgage interest income.
- Operating revenues in fiscal year 2009 of $53,802 were up $265 from the prior year as a net result of more single family mortgages outstanding and less investments resulting in less interest income.
- Operating expenses of $44,962 were down $2,657 in fiscal year 2010 due to a decrease in interest expense offset by an increase in the amortization of deferred bond financing costs.
- Fiscal year 2009 operating expenses of $47,619 were up from fiscal year 2008 $964 as a result of additional interest expense.

(continued on next page)

Overview of the Financial Statements

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the Basic Financial Statements. The financial statements of the Agency provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarizes the Agency's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Agency.

CONDENSED BALANCE SHEETS – JUNE 30, 2010, 2009, AND 2008

				2009-2010	
	2010	2009	2008	Change	Percentage
ASSETS					
Unrestricted current assets	**$ 3,934**	$ 4,412	$ 4,038	$ (478)	(11) %
Restricted current assets	**283,010**	154,498	274,680	128,512	83
Total current assets	**286,944**	158,910	278,718	128,034	81
Unrestricted noncurrent assets	**3,414**	3,129	8,192	285	9
Restricted noncurrent assets	**944,578**	842,266	774,513	102,312	12
	947,992	845,395	782,705	102,597	12
Total assets	**$ 1,234,936**	$ 1,004,305	$ 1,061,423	$ 230,631	23 %
LIABILITIES					
Current liabilities	**$ 150,227**	$ 54,043	$ 140,069	$ 96,184	179 %
Noncurrent liabilities	**969,578**	844,863	823,585	124,715	14
	1,119,805	898,906	963,654	220,899	24
NET ASSETS					
Invested in capital assets	**85**	96	11	(11)	(11)
Restricted for debt service	**99,937**	89,748	82,081	10,189	11
Unrestricted	**15,109**	15,555	15,677	(446)	(3)
	115,131	105,399	97,769	9,732	9
Total liabilities and net assets	**$ 1,234,936**	$ 1,004,305	$ 1,061,423	$ 230,631	23 %

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CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – YEARS ENDED JUNE 30, 2010, 2009, AND 2008

	2010	2009	2008	2009-2010 Change	2009-2010 Percentage
OPERATING REVENUES					
Mortgage interest income	**$ 47,866**	$ 45,635	$ 40,586	$ 2,231	5 %
Investment income	**3,769**	6,595	11,422	(2,826)	(43)
Fee income	**1,782**	1,572	1,529	210	13
Total revenues	**53,417**	53,802	53,537	(385)	(1)
OPERATING EXPENSES					
Interest expense	**36,644**	40,204	39,334	(3,560)	(9)
Agency grants	**519**	569	596	(50)	(9)
Amortization of deferred bond financing costs	**1,750**	879	968	871	99
Administrative and operating expenses	**3,388**	3,547	3,533	(159)	(4)
Salaries and benefits	**2,636**	2,416	2,223	220	9
Depreciation	**25**	4	1	21	525
Total expenses	**44,962**	47,619	46,655	(2,657)	(6)
OPERATING INCOME	**8,455**	6,183	6,882	2,272	37
NONOPERATING REVENUES (EXPENSES)					
HUD grants	**17,979**	12,157	12,156	5,822	48
Investment income	**1,168**	1,478	2,130	(310)	(21)
HUD grants	**(17,979)**	(12,157)	(12,156)	(5,822)	48
Gain on liquidation of debt	**139**	-	-	139	100
	1,307	1,478	2,130	(171)	(12)
INCOME BEFORE TRANSFERS	**9,762**	7,661	9,012	2,101	27
TRANSFERS					
Transfer to Industrial Commission	**30**	31	31	(1)	(3)
CHANGE IN NET ASSETS	**9,732**	7,630	8,981	2,102	28
TOTAL NET ASSETS, BEGINNING OF YEAR	**105,399**	97,769	88,788	7,630	8
TOTAL NET ASSETS, END OF YEAR	**$ 115,131**	$ 105,399	$ 97,769	$ 9,732	9 %

(continued on next page)

Investment Income

Operating interest income is comprised of the sum of interest earnings on funds held in trust for the Home Mortgage Finance Program. These funds are invested in investment contracts as reported in Notes 2 and 3 to the financial statements. The decrease in interest earnings in fiscal year 2010 was due to low interest rates on new investments.

The decrease in operating interest earnings in fiscal year 2009 was due to the decrease in the amount of funds invested and lowers interest rates on new investments.

Non-operating interest income represents earnings on the Agencies investments. These funds are invested in US Treasury securities or the Bank of North Dakota money market and demand accounts. The decrease in fiscal year 2010 and fiscal year 2009 interest earnings was due to investments being called on their first optional call date resulting in write-offs of the market value premium.

Budgetary Information

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

Contacting the North Dakota Housing Finance Agency's Financial Management

The information in this report is intended to provide the reader with an overview of the Agency's operations along with the Agency's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Housing Finance Agency, PO Box 1535, Bismarck, ND 58502-1535.

NORTH DAKOTA HOUSING FINANCE AGENCY
BALANCE SHEETS
JUNE 30, 2010 AND 2009
(In Thousands)

	2010	2009
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	**$ 2,391**	$ 2,932
Due from State Agencies	**117**	98
Receivables		
Interest		
Loans	**39**	42
Investments	**118**	136
Due from HUD	**174**	157
Other	**547**	549
Current portion of service release premium	**498**	452
Prepaid expenses	**50**	46
Total unrestricted current assets	**3,934**	4,412
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	**261,380**	135,126
Receivables		
Current portion of loans receivable	**17,773**	15,857
Interest		
Loans	**3,844**	3,503
Investments	**13**	12
Total restricted current assets	**283,010**	154,498
Total current assets	**286,944**	158,910
NONCURRENT ASSETS - UNRESTRICTED		
Service release premium, net	**3,329**	3,033
Equipment, net	**85**	96
Total unrestricted noncurrent assets	**3,414**	3,129
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	**904,626**	808,387
Investments	**12,292**	13,345
Deferred outflow	**19,751**	13,391
Deferred bond financing costs, net	**7,909**	7,143
Total restricted noncurrent assets	**944,578**	842,266
Total noncurrent assets	**947,992**	845,395
Total assets	**$ 1,234,936**	$ 1,004,305

See Notes to Financial Statements

	2010	2009
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	**$ 51**	$ 47
Due to state agencies	**18**	36
Current portion of rebate due to IRS	**469**	497
Other	**1,248**	1,044
Current portion of compensated absences	**142**	133
Current portion of bonds payable	**119,051**	19,794
Loan from Bank of North Dakota	**-**	2,766
Accrued interest	**18,474**	19,149
Funds held in trust	**10,774**	10,542
Deferred credits	**-**	35
Total current liabilities	**150,227**	54,043
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	**81**	68
Rebate due to IRS, net of current portion	**1,054**	1,612
Financial derivative instrument	**19,751**	13,391
Bonds payable, net of current portion	**948,692**	829,792
Total noncurrent liabilities	**969,578**	844,863
Total liabilities	**1,119,805**	898,906
NET ASSETS		
Invested in capital assets	**85**	96
Restricted for debt service	**99,937**	89,748
Unrestricted	**15,109**	15,555
Total net assets	**115,131**	105,399
Total liabilities and net assets	**$ 1,234,936**	$ 1,004,305

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
(In Thousands)

	2010	2009
OPERATING REVENUES		
Mortgage interest income	**$ 47,866**	$ 45,635
Investment income	**3,769**	6,595
Fee income	**1,782**	1,572
Total revenues	**53,417**	53,802
OPERATING EXPENSES		
Interest expense	**36,644**	40,204
Agency grants	**519**	569
Amortization of deferred bond financing costs	**1,750**	879
Administrative and operating expenses	**3,388**	3,547
Salaries and benefits	**2,636**	2,416
Depreciation	**25**	4
Total expenses	**44,962**	47,619
OPERATING INCOME	**8,455**	6,183
NONOPERATING REVENUES (EXPENSES)		
HUD grants	**17,979**	12,157
Investment income	**1,168**	1,478
HUD grants	**(17,979)**	(12,157)
Gain on liquidation of debt	**139**	-
Total nonoperating revenues	**1,307**	1,478
INCOME BEFORE TRANSFERS	**9,762**	7,661
TRANSFERS		
Transfer to Industrial Commission	**30**	31
CHANGE IN NET ASSETS	**9,732**	7,630
TOTAL NET ASSETS, BEGINNING OF YEAR	**105,399**	97,769
TOTAL NET ASSETS, END OF YEAR	**$ 115,131**	$ 105,399

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009
(In Thousands)

	2010	2009
OPERATING ACTIVITIES		
Receipts from customers	**$ 173,643**	$ 153,926
Payment of grants	**(533)**	(732)
Payments to service providers		
State agencies	**(393)**	(460)
Mortgage loan purchases	**(214,185)**	(151,344)
Other	**(8,122)**	(6,992)
Payments to employees	**(2,630)**	(2,410)
Payment of rebate to IRS	**(468)**	(189)
Net cash used in operating activities	**(52,688)**	(8,201)
NONCAPITAL FINANCING ACTIVITIES		
Principal payments on loan from Bank of North Dakota	**(136,285)**	(46,462)
Principal payments on bonds payable	**(217,896)**	(206,925)
Proceeds from loan borrowings from Bank of North Dakota	**133,519**	45,641
Proceeds from bond issuance	**436,883**	130,000
Interest paid on loans and bonds	**(37,499)**	(40,733)
Payment of bond issue costs	**(2,517)**	(1,236)
Transfer to Industrial Commission	**(30)**	(31)
Net cash from (used for) noncapital financing activities	**176,175**	(119,746)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	**(14)**	(89)
INVESTING ACTIVITIES		
Purchase of investments	**-**	(5,942)
Proceeds from sale of investments	**1,260**	10,918
Interest received from investments	**980**	1,803
Net cash from investing activities	**2,240**	6,779
CHANGE IN CASH AND CASH EQUIVALENTS	**125,713**	(121,257)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**138,058**	259,315
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 263,771**	$ 138,058
Cash and cash equivalents - unrestricted	**$ 2,391**	$ 2,932
Cash and cash equivalents - restricted	**261,380**	135,126
Total cash and cash equivalents	**$ 263,771**	$ 138,058

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	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income	**$ 8,455**	$ 6,183
Adjustments to reconcile operating income to net cash used in operating activities		
Depreciation	**25**	4
Amortization		
Deferred bond financing costs	**1,750**	879
Original issue discounts and premiums	**(691)**	(634)
Service release premium	**927**	807
Reclassification of interest expense to other activities	**36,821**	40,602
Changes in assets and liabilities		
Due from HUD	**(17)**	48
Due from State Agencies	**(19)**	25
Other receivables	**2**	4
Service release premium	**(1,267)**	(991)
Prepaid expenses	**(4)**	(22)
Loan interest receivable	**(338)**	(337)
Loans receivable	**(98,155)**	(55,177)
Due to HUD	**4**	(210)
Due to State Agencies	**(18)**	26
Rebate due to IRS	**(586)**	(123)
Other liabilities	**204**	274
Compensated absences	**22**	13
Funds held in trust	**232**	388
Deferred credits and revenues	**(35)**	40
Net cash used in operating activities	**$ (52,688)**	$ (8,201)
Non-cash disclosure:		
Increase (decrease) in fair value of investments	**$ 207**	$ (246)
Gain on the liquidation of debt	**$ 139**	$ -

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENT OF APPROPRIATIONS
BIENNIUM ENDED JUNE 30, 2011
(In Thousands)

	2009-2011 Appropriations Original	2009-2011 Appropriations As Adjusted	2009-2011 Expenditures	Unexpended Appropriations
ADMINISTRATIVE EXPENSES				
Salaries, wages and benefits	$ 6,061	$ 6,061	$ 2,636	$ 3,425
Operating expenses	8,678	8,678	2,288	6,390
Grants, benefits and claims	26,224	32,919	16,130	16,789
Federal stimulus funds	30,361	30,361	2,368	27,993
Contingency	100	100	15	85
Total	$ 71,424	$ 78,119	$ 23,437	$ 54,682

(1) The Agency's total appropriation of $78,119 consists of funding of $60,880 from federal funds and $17,239 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 4 of SB 2014. As of June 30, 2010, the Agency used $6,695 in continuing appropriations for grants not included in the original appropriation.

(2) This statement includes only those expenditures for which there are appropriations. A reconciliation to the expenses on the statement of revenues, expenses and changes in fund net assets follows (in thousands):

	2010
Total expenditures	$ 23,437
Less: Grants, benefits and claims	(18,498)
Administrative and operating expenses relating to Rental, Homeownership Bonds, and Agency expenses	158
Amortization of service release premium	927
Depreciation	25
Total administrative and operating expenses, salaries and benefits, and depreciation	$ 6,049

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) statements No. 14, *The Financial Reporting Entity*, the Agency should include all component units over which the Agency exercises such aspects as (1) appointing a voting majority of an organization’s governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Agency.

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

Budgetary Process

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

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

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Accounting Standards

The Agency follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Agency follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

Fund Accounting

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

The Agency's funds are:

Agency Operating Funds

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

Homeownership Bond Funds

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

Basis of Accounting and Measurement Focus

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statements of revenues, expenditures, and changes in fund net assets.

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

Accumulated Unpaid Vacation and Sick Pay

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

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

Interfund Receivables and Payables

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

Mortgage Loans Receivable

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

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Deferred Bond Financing Costs

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

Service Release Premium

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

Equipment

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

Funds Held in Trust

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

Rebate Due to IRS

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

Financial Derivative Instrument

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

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, 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.

(continued on next page)

Reclassification

Reclassifications have been made to the 2009 financial statement presentation to conform to the 2010 presentation. The reclassifications had no effect on the change in net assets or total net assets.

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, 2010 and 2009 were $13,424 and $13,545, 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, 2010 and 2009 were $13,125 and $13,382, respectively.

NOTE 3 – INVESTMENTS

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

The carrying amount of the Agency's cash and cash equivalents are reported on the balance sheets at June 30, 2010 and 2009, as follows:

	2010	2009
Unrestricted:		
Cash and cash equivalents		
Deposits	**$ 2,351**	$ 2,840
Cash and cash equivalents held in trust	**40**	92
Total cash and cash equivalents	**$ 2,391**	$ 2,932
Restricted:		
Cash and cash equivalents		
Deposits	**$ 10,774**	$ 10,542
Cash and cash equivalents held in trust	**109,289**	16,613
Fixed rate investment agreements reported as cash equivalents	**141,317**	107,971
Total cash and cash equivalents	**$ 261,380**	$ 135,126

(continued on next page)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. At June 30, 2010, the following shows the investments by investment type, amount and the duration (expressed in thousands).

	Total Market Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Federal National Mortgage Association Agency Bond	$ 5,692	$ -	$ -	$ 5,692	$ -
US Treasury Bonds	6,600	-	-	6,600	-
Total Debt Securities	$ 12,292	$ -	$ -	$ 12,292	$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed rate investment agreements and the US Treasury Bonds are not rated. The following represents the Agency's ratings as of June 30, 2010 (expressed in thousands):

	S&P Credit Rating AAA	Total Market Value
Federal National Mortgage Association	$ 5,692	$ 5,692
US Treasury Bonds		6,600
Total Debt Securities		$ 12,292

Agency Operating Fund investment securities with a carrying amount of approximately $12,292 and $13,345 at June 30, 2010 and 2009, were pledged as requested by rating agencies in conjunction with the 1994 General Resolution and as collateral on bank loans.

(continued on next page)

NOTE 4 - LOANS RECEIVABLE

Loans receivable at June 30, 2010 and 2009, consist of the following:

	2010	2009
Restricted:		
Agency operating funds	$ 6,182	$ 10,548
Less current portion	158	247
	$ 6,024	$ 10,301
Restricted:		
Homeownership bond funds	$ 916,217	$ 813,696
Less current portion	17,615	15,610
	$ 898,602	$ 798,086

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 $291 which have been foreclosed on and are owned by the Agency (REO), $112 in real estate loans in judgment (REJ) and 51 loans totaling $3,533 were in the foreclosure process at June 30, 2010. At June 30, 2009, Homeownership and Agency mortgage loans included $193 of REO loans, $69 in real estate loans in judgment (REJ) and 47 loans totaling $3,318 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.

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NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

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

	2010	2009
Administration and servicing fees between Rental Fund, Homeownership Fund and Agency Fund	**$ 4,671**	$ 11,934

NOTE 6 - INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

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

	2010	2009
Due from HUD	**$ 174**	$ 157
Due to HUD	**$ 51**	$ 47

NOTE 7 - EQUIPMENT

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

	Equipment	Accumulated Depreciation	Net Equipment
Balance, June 30, 2008	$ 227	$ 216	$ 11
Additions	89	4	
Disposals	-	-	
Balance, June 30, 2009	316	220	$ 96
Additions	14	25	
Disposals	(133)	(133)	
Balance, June 30, 2010	$ 197	$ 112	$ 85

(continued on next page)

NOTE 8 - OTHER RECEIVABLES

A detail of other receivables is as follows:

		2010		2009
Unrestricted:				
Receivable from developers	**$**	**358**	$	456
Accounts receivable		**189**		93
	$	**547**	$	549

NOTE 9 – RELATED PARTY TRANSACTIONS

The Agency had the following transactions with related parties as of June 30, 2010 and 2009.

		2010		2009
Cash and cash equivalents - unrestricted				
Bank of North Dakota	**$**	**2,351**	$	2,840
Cash and cash equivalents - restricted				
Bank of North Dakota	**$**	**10,774**	$	10,542
Due from state agencies				
Department of Commerce	**$**	**103**	$	76
Bank of North Dakota		**14**		22
	$	**117**	$	98
Due to state agencies				
Information Technology Department	**$**	**7**	$	22
Attorney General		**1**		5
Department of Transportation		**1**		2
Bank of North Dakota		**-**		6
North Dakota State Radio		**1**		-
Office of Management and Budget		**1**		1
North Dakota Tax Department		**7**		-
	$	**18**	$	36

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	2010	2009
Loan payable to the Bank of North Dakota	**$ -**	$ 2,766
Transfers out		
Industrial Commission	**$ 30**	$ 31
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	**$ 185**	$ 361
Information Technology Department		
Telephone	**28**	44
Data processing	**51**	42
Attorney General		
Legal fees	**28**	23
Office of Management and Budget		
Supplies and conferences	**14**	24
Risk management premium	**2**	3
Indirect cost allocation	**2**	-
Department of Transportation		
Travel	**9**	10
ND State Radio Communications		
NCIC Access	**4**	1
Department of Insurance		
State fire and tornado fund premium	**1**	-
Rough Rider Industries		
Supplies and equipment	**32**	-

NOTE 10 - OTHER LIABILITIES

A detail of other liabilities is as follows:

	2010	2009
Remarketing fees	**$ 66**	$ 56
Commitment fees	**169**	93
Accounts payable	**920**	788
Trustee fees	**93**	107
	$ 1,248	$ 1,044

(continued on next page)

NOTE 11 – COMPENSATED ABSENCES

A summary of compensated absences follows:

	2010	2009
Beginning balance, July 1	**$ 201**	$ 188
Additions	**163**	146
Reductions	**(141)**	(133)
Ending balance, June 30	**$ 223**	$ 201
Amounts due within one year	**$ 142**	$ 133

NOTE 12 - BONDS PAYABLE

Change in Bonds Payable

A summary of changes in bonds payable follows:

	Balance 2009	**Additions**	**Reductions**	**Balance 2010**	**Amounts Due Within One Year**
Homeownership bond funds, par	**$ 843,345**	**$ 435,630**	**$ 218,035**	**$ 1,060,940**	**$ 118,710**
Premium on bond funds	**6,290**	**1,253**	**706**	**6,837**	**348**
Discount on bond funds	**(49)**	**-**	**(15)**	**(34)**	**(7)**
Homeownership bond funds, net	**$ 849,586**	**$ 436,883**	**$ 218,726**	**$ 1,067,743**	**$ 119,051**

	Balance 2008	Additions	Reductions	Balance 2009	Amounts Due Within One Year
Homeownership bond funds, par	$ 920,270	$ 130,000	$ 206,925	$ 843,345	$ 19,480
Premium on bond funds	6,941	-	651	6,290	322
Discount on bond funds	(67)	-	(18)	(49)	(8)
Homeownership bond funds, net	$ 927,144	$ 130,000	$ 207,558	$ 849,586	$ 19,794

Bonds Payable

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

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Maturities of Bonds Payable

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

Years Ending June 30,	Principal	Interest	Total Debt Service
2011	$ 118,710	$ 42,451	$ 161,161
2012	23,465	41,697	65,162
2013	22,575	40,930	63,505
2014	26,840	40,064	66,904
2015	25,095	39,043	64,138
2016-2020	127,990	179,293	307,283
2021-2025	138,435	150,175	288,610
2026-2030	162,985	116,411	279,396
2031-2035	216,670	72,998	289,668
2036-2040	183,545	19,971	203,516
2041-2045	14,630	587	15,217
Premiums	6,837	(6,837)	-
Discounts	(34)	34	-
	$ 1,067,743	$ 736,817	$ 1,804,560

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2010 and 2009. The term bonds of all bond series have mandatory sinking fund requirements. All of the bonds payable relate to the Agency's Homeownership Bond Fund.

	Interest Rate	**2010**	2009
Series 1996 C			
Serial bonds 7/1/03 - 7/1/12	4.90 - 5.75	**$ -**	$ 1,000
Term bonds 7/1/17	5.95	-	450
Term bonds 7/1/28	6.10	-	560
Series 1996 D			
Serial bonds 7/1/03 - 1/1/13	4.75 - 5.60	-	1,255
Term bonds 1/1/18	5.80	-	950
Term bonds 1/1/29	5.90	-	2,000
Series 1997 A			
Serial bonds 7/1/03 - 7/1/12	5.00 - 5.90	-	335
Series 1997 B			
Serial bonds 7/1/03 - 7/1/12	4.80 - 5.50	-	380
Term bonds 7/1/17	5.75	-	410
Term bonds 7/1/28	5.85	-	695

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	Interest Rate	**2010**	2009
Series 1997 C			
Serial bonds 7/1/03 - 7/1/13	4.50 - 5.35	**-**	1,485
Term bonds 7/1/18	5.50	**-**	830
Term bonds 7/1/29 (not reoffered)	5.55	**-**	545
Term bonds 7/1/29	5.55	**-**	965
Series 1997 D			
Serial bonds 7/1/03 - 1/1/14	4.10 - 5.00	**-**	2,600
Term bonds 1/1/19	5.15	**-**	1,285
Term bonds 1/1/30	5.25	**-**	145
Term bonds 1/1/30 (not reoffered)	5.25	**-**	2,355
Series 1997 F			
Serial bonds 7/1/03 - 7/1/13	4.75 - 5.60	**-**	600
Term bonds 7/1/18	5.80	**-**	285
Term bonds 1/1/29	5.90	**-**	395
Series 1997 G			
Serial bonds 7/1/03 - 7/1/13	4.70 - 5.45	**-**	1,615
Term bonds 1/1/29	5.75	**-**	965
Term bonds 7/1/29	5.75	**-**	1,245
Series 1998A			
Serial bonds 7/1/03 - 7/1/13	4.40 - 5.15	**-**	1,835
Term bonds 7/1/18	5.25	**-**	895
Term bonds 1/1/23	4.60	**-**	55
Term bonds 1/1/28	5.35	**-**	485
Term bonds 7/1/28	5.35	**-**	720
Series 1998B			
Serial bonds 7/1/03 - 7/1/13	4.45 - 5.30	**-**	3,625
Term bonds 7/1/18	5.45	**-**	2,485
Term bonds 1/1/29 (not reoffered)	5.50	**-**	1,025
Term bonds 7/1/29	5.50	**-**	3,135
Series 1998E			
Serial bonds 7/1/03 - 7/1/13	4.10 - 5.00	**-**	1,005
Term bonds 7/1/18	5.15	**-**	715
Term bonds 1/1/30	5.25	**-**	1,850
Series 1998F			
Term bonds 7/1/18	5.28	**2,030**	2,320
Discount		**(34)**	(44)
Series 1999A			
Serial bonds 7/1/03 - 7/1/14	4.05 - 5.15	**-**	3,335
Term bonds 7/1/19	5.20	**-**	2,570
Term bonds 1/1/30	5.25	**-**	7,020
Series 1999B			
Term bonds 7/1/18	6.10	**-**	535
Discount		**-**	(5)
Series 1999D			
Serial bonds 7/1/03 - 7/1/14	4.75 - 5.80	**-**	2,030
Term bonds 7/1/19	5.95	**-**	1,130
Term bonds 1/1/30	6.00	**-**	3,565

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	Interest Rate	**2010**	2009
Series 2000C			
Serial bonds 7/1/03 - 7/1/15	4.85 - 5.80	**2,745**	3,265
Term bonds 7/1/20	6.00	**1,060**	1,875
Term bonds 7/1/31	6.15	**1,375**	2,560
Series 2001A			
Serial bonds 7/1/03 - 7/1/14	3.90 - 5.15	**1,595**	4,605
Term bonds 7/1/21	5.45	**3,680**	4,745
Term bonds 7/1/31	4.70	**-**	495
Term bonds 7/1/31 (not reoffered)	5.55	**3,185**	4,105
Term bonds 1/1/32	5.55	**5,125**	6,855
Series 2001C			
Serial bonds 7/1/03 - 7/1/13	2.70 - 4.70	**1,745**	2,245
Term bonds 7/1/22	5.30	**2,595**	3,125
Term bonds 7/1/33	4.20	**290**	1,295
Term bonds 7/1/33 (not reoffered)	5.40	**1,215**	1,460
Term bonds 1/1/34	5.40	**3,355**	4,185
Series 2002A			
Serial bonds 7/1/04 - 7/1/13	3.35 - 5.15	**795**	2,635
Term bonds 1/1/22 (not reoffered)	5.55	**1,105**	1,380
Term bonds 7/1/22	5.55	**1,620**	2,025
PAC term bonds 7/1/33	5.00	**845**	2,030
Term bonds 7/1/33 (not reoffered)	5.65	**2,150**	2,690
Term bonds 1/1/34	5.65	**2,425**	3,210
Series 2002B			
Serial bonds 7/1/04 -7/1/13	2.00 - 4.375	**2,585**	3,280
PAC term bonds 7/1/33	Variable	**900**	1,945
Term bonds 1/1/34	Variable	**10,340**	11,500
Series 2003A			
Serial bonds 7/1/05 - 7/1/14	1.65 - 4.00	**2,735**	4,085
PAC term bonds 1/1/34	Variable	**2,060**	3,165
Term bonds 7/1/34	Variable	**7,550**	8,990
Term bonds 1/1/35	Variable	**12,490**	12,490
Series 2003B			
Serial bonds 7/1/04 - 7/1/14	1.45 - 4.75	**3,005**	5,125
Term bonds 1/1/24 (not reoffered)	5.30	**-**	255
Term bonds 7/1/24	5.30	**-**	695
PAC term bonds 1/1/34	Variable	**2,170**	3,405
Term bonds 7/1/34	Variable	**14,205**	14,205
Term bonds 1/1/35	Variable	**6,500**	6,500
Series 2004B			
Serial bonds 7/1/05 - 7/1/11	1.60 - 3.70	**55**	2,520
Term bonds 1/1/15	4.25	**-**	835
Term bonds 7/1/15 (not reoffered)	4.25	**-**	695
PAC term bonds 1/1/35	Variable	**4,025**	5,760
Term bonds 7/1/35	Variable	**12,990**	12,990
Term bonds 1/1/36	Variable	**10,500**	10,500

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	Interest Rate	**2010**	2009
Series 2004C			
Serial bonds 7/1/05 - 7/1/15	2.15 - 4.90	**4,550**	5,735
Term bonds 7/1/24	5.20	**3,335**	4,660
Term bonds 1/1/29	5.25	**2,565**	3,585
Term bonds 1/1/35 (not reoffered)	5.30	**1,990**	2,810
PAC term bonds 1/1/35	Variable	**21,885**	23,375
Term bonds 7/1/35	5.30	**2,155**	2,990
Series 2005A			
Serial bonds 1/1/06 - 7/1/15	2.90 - 4.60	**2,480**	9,875
Term bonds 7/1/24	Variable	**23,100**	23,100
Term bonds 1/1/36	Variable	**23,100**	23,100
Series 2005CD			
Serial bonds 7/1/06 - 7/1/16	3.05 - 4.45	**14,220**	16,820
Term bond 1/1/29	4.70	**12,260**	18,915
Term bond 1/1/36	Variable	**12,000**	12,000
Series 2006A			
Serial bonds 7/1/07 - 7/1/16	3.85 - 4.75	**13,675**	16,055
Term bond 7/1/21	4.85	**6,115**	9,385
Term bond 7/1/26	4.95	**8,850**	13,595
Term bond 7/1/31	5.00	**10,605**	16,875
Term bond 1/1/37	5.50	**18,260**	22,760
Term bond 7/1/37	Variable	**30,210**	30,210
Premium		**1,255**	1,318
Series 2007AB			
Serial bonds 7/1/08 - 7/1/17	3.7 - 4.45	**9,930**	11,305
Term bond 7/1/21	4.60	**4,345**	4,730
Term bond 7/1/26	4.70	**6,815**	7,430
Term bond 7/1/31	4.75	**6,890**	9,575
Term bond 1/1/37	5.50	**28,425**	32,065
Term bond 7/1/37	4.80	**14,815**	16,430
Premium		**2,252**	2,621
Series 2007CD			
Serial bonds 7/1/08 - 7/1/17	3.85 - 4.85	**8,875**	10,930
Term bond 7/1/22	5.20	**5,825**	6,305
Term bond 7/1/27	5.25	**7,530**	8,160
Tern bond 1/1/38	5.75	**26,505**	29,140
Term bond 7/1/38	5.35	**26,315**	28,710
Premium		**1,494**	1,727

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	Interest Rate	**2010**	2009
Series 2008A			
Serial bonds 7/1/09 -7/1/18	2.60 - 4.9	**6,785**	7,295
Term bond 7/1/23	5.40	**4,570**	4,670
Term bond 7/1/28	5.65	**6,000**	6,135
Term bond 7/1/32	5.80	**6,145**	6,310
Term bond 7/1/38	5.75	**11,070**	11,890
Term bond 1/1/39	Variable	**13,700**	13,700
Premium		**601**	624
Series 2008B			
Term bond 7/1/38	Variable	**14,130**	15,310
Series 2008D			
Serial bonds 7/1/10 - 7/1/18	2.65 - 4.65	**20,670**	21,255
Term bond 7/1/23	5.15	**15,105**	16,090
Term bond 7/1/28	5.40	**19,595**	20,870
Term bond 7/1/33	5.55	**25,655**	27,335
Term bond 1/1/39	5.625	**21,010**	22,600
Term bond 7/1/39	Variable	**21,850**	21,850
Series 2009 AB			
Serial bonds 1/1/10 - 7/1/19	.75 - 4.10	**47,835**	-
Term bond 7/1/34	5.35	**14,250**	-
Term bond 7/1/39	5.45	**16,795**	-
Term bond 1/1/30	Variable	**50,005**	-
Series 2009 CD			
Serial bonds 1/1/11 - 7/1/21	1.0 - 4.125	**14,430**	-
PAC Term Bond 1/1/2029	5.25	**8,500**	-
Term bond 1/1/41	4.44	**9,600**	-
Term bond 7/1/41	3.96	**38,400**	-
Term bond 7/1/26	4.75	**9,070**	-
Premium		**735**	-
Series 2009 E	0.00	**97,100**	-
Series 2010 AB			
Serial bonds 7/1/11 - 7/1/21	.75 - 4.05	**14,615**	-
Term bond 7/1/26	4.45	**8,475**	-
PAC Term Bond 7/1/2028	5.00	**8,910**	-
Term bond 7/1/41	3.96	**48,000**	-
Premium		**500**	-
		$ 1,067,743	$ 849,586

In prior years, the Agency defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2010 and 2009, $2,030 and $2,855 of bonds outstanding are considered defeased. Additionally, the differences between the reacquisition price and the net carrying amount of the old debt were $33 and $49 as of June 30, 2010 and 2009. This amount is being amortized over the next 8 years using the bonds outstanding method.

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Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of $1,067,743 maturing at various times from July 1, 2010 through July 1, 2041. The bonds have been issued to provide financing to purchase mortgage loans. Annual principal and interest payments on the bonds are expected to require 98 percent of net revenues. Principal and interest paid for the current year and total customer net revenues were $255,370 and $166,885 respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues

NOTE 13 – 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[2], the Agency entered into several cash flow hedges or swaps in connection with various variable-rate housing bond series[1]. All Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate. [6]

Terms

The bonds and the related swap agreements have a stated issuance[2] and maturity date[3]. Some of the swaps have optional termination dates[15]. Under the swaps, the authority pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR) [7] plus a fixed percentage[8] on the swap notional amount[4]. On the other hand, the bond's variable-rate[9] coupons are determined by the remarketing agent. If for any reason the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution. The Agency had optionally terminated two swaps with an aggregate notional amount of $20,095 at par and entered into an additional swap with a $50,530 notional amount. The net change in fair value of the individual swaps is presented in the terms table below[14].

Credit Risk

As of June 30, 2010, the Agency is exposed to credit risk on the swaps that have a positive fair value, which total $5,039. As of June 30, 2009, the Agency did not have any swaps that had a positive fair value. Of the swaps with negative fair value, the Agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on bonds. The swap counterparty has guaranteed all payments and is rated AA+/AA-/AA by Moody’s Investor Services, Standard & Poor’s, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreement with Citigroup Global Marketing as a credit enhancement.

The Agency has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements netting provisions permit each party to and net the transactions' fair values so that a single sum will be owed by, or owed to, the other party. At June 30, 2010 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of $3,907 and the swap providers owed the Agency a variable rate on the notional amounts of $453 making the net payment that the Agency owed the swap providers $3,454.

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Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value[10] of $19,751 and $13,391 as of June 30, 2010 and 2009. 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, 2010 and 2009. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

Basis Risk

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate[6] and the synthetic rate[12] as of June 30, 2010 and 2009. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

Termination Risk

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

Rollover Risk

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

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The terms of the interest rate swaps at June 30, 2010 are as follows:

1	Bond Series	**2002 B**	**2003 A**	**2003 B**	**2003 B**
2	Issuance Date	**8/28/2002**	**5/14/2003**	**8/27/2003**	**8/27/2003**
3	Maturity Date	**7/1/2011**	**1/1/2012**	**1/1/2012**	**7/1/2034**
4	Notional Amount	**900**	**2,060**	**2,170**	**14,205**
5	Variable-rate Bonds	**900**	**2,060**	**2,170**	**14,205**
6	Fixed Rate	**2.940%**	**2.463%**	**3.155%**	**4.530%**
7	LIBOR Percentage	**70.60%**	**62.50%**	**64.00%**	**64.00%**
8	Additional Percentage	**0.00%**	**0.44%**	**0.37%**	**0.37%**
9	Bonds Variable-rate	**0.26000%**	**0.29000%**	**0.29000%**	**0.29000%**
10	Fair Value	**(20)**	**(44)**	**(64)**	**(738)**
11	Percentage of LIBOR	**0.24401%**	**0.65602%**	**0.58620%**	**0.58620%**
12	Synthetic Rate	**2.95599%**	**2.09698%**	**2.85880%**	**4.23380%**
13	Actual Synthetic Rate	**3.17828%**	**2.36406%**	**3.08398%**	**4.44579%**
14	Change in Fair Value	**35**	**30**	**57**	**37**
15	Optional Termination Date				**7/1/2011**

1	Bond Series	**2004 B**	**2004 B**	**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**	**1/1/2035**	**7/1/2024**
4	Notional Amount	**4,025**	**12,990**	**21,885**	**23,100**
5	Variable-rate Bonds	**4,025**	**12,990**	**21,885**	**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	**0.29000%**	**0.29000%**	**0.26000%**	**0.27000%**
10	Fair Value	**(117)**	**(1,046)**	**(1,306)**	**(1,667)**
11	Percentage of LIBOR	**0.55775%**	**0.55775%**	**0.55775%**	**0.53740%**
12	Synthetic Rate	**2.35225%**	**3.71225%**	**3.79725%**	**3.60260%**
13	Actual Synthetic Rate	**2.60419%**	**3.95005%**	**4.06602%**	**3.84242%**
14	Change in Fair Value	**52**	**(333)**	**143**	**(286)**
15	Optional Termination Date		**7/1/2013**	**7/1/2011**	**7/1/2012**

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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	14,130
5	Variable-rate Bonds	12,000	30,210	13,700	14,130
6	Fixed Rate	3.889%	3.955%	3.198%	4.725%
7	LIBOR Percentage	63.00%	63.00%	63.00%	100.00%
8	Additional Percentage	0.31%	0.31%	0.32%	0.00%
9	Bonds Variable-rate	0.27000%	0.27000%	0.27000%	0.32000%
10	Fair Value	(1,207)	(4,341)	(1,338)	(1,764)
11	Percentage of LIBOR	0.52775%	0.52775%	0.53775%	0.34563%
12	Synthetic Rate	3.63125%	3.69725%	2.93025%	4.69937%
13	Actual Synthetic Rate	3.86474%	3.92823%	3.15313%	5.49327%
14	Change in Fair Value	(417)	(880)	(498)	(482)
15	Optional Termination Date	1/1/2016	7/1/2016	1/1/2017	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	50,005
5	Variable-rate Bonds	21,850	50,005
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	0.21000%	0.26000%
10	Fair Value	(2,750)	(3,349)
11	Percentage of LIBOR	0.42017%	0.45362%
12	Synthetic Rate	3.70883%	2.91438%
13	Actual Synthetic Rate	3.85625%	2.99969%
14	Change in Fair Value	(816)	(3,349)
15	Optional Termination Date	7/1/2018	7/1/2016

The terms of the interest rate swaps at June 30, 2009 are as follows:

1	Bond Series	2002 B	2002 B	2003 A	2003 A
2	Issuance Date	8/28/2002	8/28/2002	5/14/2003	5/14/2003
3	Maturity Date	1/1/2034	7/1/2011	7/1/2034	1/1/2012
4	Notional Amount	11,500	1,750	8,990	3,165
5	Variable-rate Bonds	11,500	1,945	8,990	3,165
6	Fixed Rate	4.470%	2.940%	4.035%	2.463%
7	LIBOR Percentage	68.70%	70.60%	62.50%	62.50%
8	Additional Percentage	0.00%	0.00%	0.44%	0.44%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(330)	(55)	(17)	(74)
11	Percentage of LIBOR	0.21984%	0.22592%	0.64000%	0.64000%
12	Synthetic Rate	4.62016%	3.08408%	3.76500%	2.19300%
13	Actual Synthetic Rate	4.79586%	3.18287%	3.92165%	2.37624%
14	Change in Fair Value	(166)	(28)	(78)	(88)
15	Optional Termination Date	1/1/2010		1/1/2010	

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1	Bond Series	2003 B	2003 B	2004 B	2004 B
2	Issuance Date	8/27/2003	8/27/2003	4/1/2004	4/1/2004
3	Maturity Date	1/1/2012	7/1/2034	1/1/2013	7/1/2035
4	Notional Amount	3,405	14,205	5,760	12,990
5	Variable-rate Bonds	3,405	14,205	5,760	12,990
6	Fixed Rate	3.155%	4.530%	2.620%	3.980%
7	LIBOR Percentage	64.00%	64.00%	63.00%	63.00%
8	Additional Percentage	0.37%	0.37%	0.34%	0.34%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(121)	(775)	(169)	(713)
11	Percentage of LIBOR	0.56980%	0.56980%	0.54160%	0.54160%
12	Synthetic Rate	2.95520%	4.33020%	2.44840%	3.80840%
13	Actual Synthetic Rate	3.09435%	4.47020%	2.62055%	3.98241%
14	Change in Fair Value	(66)	(293)	(165)	(522)
15	Optional Termination Date		7/1/2011		7/1/2013

1	Bond Series	2004 C	2005 A	2005 C	2006 A
2	Issuance Date	6/10/2004	4/13/2005	9/21/2005	5/4/2006
3	Maturity Date	1/1/2035	7/1/2024	1/1/2036	7/1/2016
4	Notional Amount	23,375	23,100	12,000	30,210
5	Variable-rate Bonds	23,375	23,100	12,000	30,210
6	Fixed Rate	4.095%	3.870%	3.889%	3.955%
7	LIBOR Percentage	63.00%	62.90%	63.00%	63.00%
8	Additional Percentage	0.34%	0.32%	0.31%	0.31%
9	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10	Fair Value	(1,449)	(1,381)	(790)	(3,461)
11	Percentage of LIBOR	0.54160%	0.52128%	0.51160%	0.51160%
12	Synthetic Rate	3.92340%	3.71872%	3.74740%	3.81340%
13	Actual Synthetic Rate	4.09701%	3.88206%	3.90756%	3.97857%
14	Change in Fair Value	(613)	(845)	(678)	(1,543)
15	Optional Termination Date	7/1/2011	7/1/2012	1/1/2016	7/1/2016

1	Bond Series	2008 A	2008 B	2008 D
2	Issuance Date	2/26/2008	2/26/2008	8/5/2008
3	Maturity Date	1/1/2017	7/1/2038	7/1/2039
4	Notional Amount	13,700	15,310	21,850
5	Variable-rate Bonds	13,700	15,310	21,850
6	Fixed Rate	3.198%	4.725%	3.919%
7	LIBOR Percentage	63.00%	100.00%	63.70%
8	Additional Percentage	0.32%	0.00%	0.20%
9	Bonds Variable-rate	0.37000%	0.70000%	0.26000%
10	Fair Value	(840)	(1,282)	(1,934)
11	Percentage of LIBOR	0.52160%	0.32000%	0.40384%
12	Synthetic Rate	3.04640%	5.10500%	3.77516%
13	Actual Synthetic Rate	3.26909%	5.95097%	3.02054%
14	Change in Fair Value	(769)	(1,173)	(1,934)
15	Optional Termination Date	1/1/2017	1/1/2020	7/1/2018

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Swap Payments and Associated Debt

Using rates as of June 30, 2010, debt service requirements of the variable-rate debt and new swap payments are as follows. Interest calculations were based on rates as of June 30, 2010. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond Principal	Variable-Rate Bond Interest	Interest Rate Swap, Net	Total
2011	$ 9,755	$ 576	$ 7,057	$ 17,388
2012	9,725	549	6,781	17,055
2013	7,660	526	6,532	14,718
2014	6,230	508	6,327	13,065
2015	5,415	493	6,147	12,055
2016-2020	76,055	1,760	22,301	100,116
2021-2025	40,910	1,100	14,663	56,673
2026-2030	17,865	747	10,428	29,040
2031-2035	28,640	419	6,193	35,252
2036-2040	20,975	94	1,540	22,609
	$ 223,230	$ 6,772	$ 87,969	$ 317,971

NOTE 14 – LOAN FROM BANK OF NORTH DAKOTA

Changes in Loan from Bank of North Dakota

The following is a summary of changes in loan from the Bank of North Dakota for the years ended June 30, 2010 and 2009:

Balance, June 30, 2008	$ 3,587
Principal payments on advance from Bank of North Dakota	(46,462)
Loan advance from Bank of North Dakota	45,641
Balance, June 30, 2009	2,766
Principal payments on advance from Bank of North Dakota	(136,285)
Loan advance from Bank of North Dakota	133,519
Balance, June 30, 2010	$ -

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2010, 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, 2011. The line of credit bears interest at 1% point over the 90 day LIBOR index with a minimum interest rate of 2%.

NOTE 15 - PENSION PLAN

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

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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 credited service, a death benefit equal to the value of the employees' accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

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

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The North Dakota Housing Finance Agency has implemented a salary reduction agreement and is currently contributing the employees' share. The North Dakota Housing Finance Agency is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The North Dakota Housing Finance Agency's required and actual contributions to NDPERS for the fiscal years ending June 30, 2010, 2009, and 2008 were $177, $163, and $149.

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

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

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

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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.

	2010	2009
Commitments to extend credit	**$ 40,479**	$ 51,204
Lendable proceeds uncommitted	**$ 19,097**	$ 1,857

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Agency, is based on management's credit evaluation of the customer.

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

As of June 30, 2010 and 2009, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of $343 and $275, respectively.

NOTE 17 - REBATE DUE TO IRS

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

	2010	2009
Series 96BCDE	**$ -**	$ 42
Series 97BCDE	**-**	146
Series 97F	**-**	2
Series 97G	**-**	18
Series 98A	**-**	6
Series 98BCD	**-**	140
Series 98E	**-**	16
Series 99AC	**-**	47
Series 99DE	**-**	80
Series 00CD	**198**	189
Series 01AB	**76**	68
Series 06A	**247**	118
Series 07AB	**1,002**	1,027
Series 07CD	**-**	210
	$ 1,523	$ 2,109

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A summary of the rebate due to IRS follows:

	2010	2009
Beginning balance, July 1	**$ 2,110**	$ 2,232
Additions	**145**	65
Reductions	**(732)**	(188)
Ending balance, June 30	**$ 1,523**	$ 2,109
Amounts due within one year	**$ 469**	$ 497

NOTE 18 – FUND NET ASSETS

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

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

NOTE 19 - RISK MANAGEMENT

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

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

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

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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 20 – OPERATING LEASES

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

Year ending June 30		
2011	$	225
2012		225
2013		214
2014		214
2015		213
2016-2019		853
	$	1,944

Total rental expense on operating leases was $225 and $118 for the years ended June 30, 2010 and 2009.

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NOTE 21 - SEGMENT INFORMATION

The Agency maintains two Enterprise Funds which provide loans to finance construction of residential housing and single family homeownership. Segment information for the year ended June 30, 2010, was as follows:

	Agency Operating Funds	Home-ownership Bond Funds	Elimina-tions	Total Enterprise Funds
Balance Sheet				
Current assets - other	$ 18,532	$ 273,187	$ (4,775)	$ 286,944
Capital assets - net	85	-		85
Noncurrent assets - other	9,353	938,450	104	947,907
Total assets	27,970	1,211,637	(4,671)	1,234,936
Current liabilities - other	12,695	142,203	(4,671)	150,227
Noncurrent liabilities - other	81	969,497		969,578
Total liabilities	12,776	1,111,700	(4,671)	1,119,805
Invested in capital assets	85	-		85
Net assets - unrestricted	15,109	-		15,109
Net assets - restricted	-	99,937		99,937
Total net assets	15,194	99,937		115,131
Statement of Revenues, Expenses and Change in Fund Net Assets				
Operating revenues				
Mortgage interest income	$ 1,351	$ 46,515	$	$ 47,866
Investment income	-	3,769		3,769
Fee income	6,236	-	(4,454)	1,782
Depreciation	(25)	-		(25)
Other operating expenses	(6,189)	(43,202)	4,454	(44,937)
Operating income	1,373	7,082		8,455
Nonoperating revenues (expenses)				
HUD grants	17,979	-		17,979
Investment income	1,168	-		1,168
HUD grants	(17,979)	-		(17,979)
Gain on liquidation of debt	-	139		139
Transfers	30	-		30
Change in net assets	2,511	7,221		9,732
Total net assets, beginning of year	15,651	89,748		105,399
Equity transfer in (out)	(2,968)	2,968		-
Total net assets, end of year	$ 15,194	$ 99,937	$ -	$ 115,131

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	Agency Operating Funds	Home-ownership Bond Funds	Elimina-tions	Total Enterprise Funds
Statement of Cash Flows				
Net cash from (used in) operating activities	**$ 1,468**	**$ (54,118)**	**$ (38)**	**$ (52,688)**
Net cash from (used for) noncapital financing activities	**(4,002)**	**180,139**	**38**	**176,175**
Net cash used for capital and related financing activities	**(14)**	**-**		**(14)**
Net cash from investing activities	**2,240**	**-**		**2,240**
Change in cash and cash equivalents	**(308)**	**126,021**		**125,713**
Cash and cash equivalents, beginning of year	**13,473**	**124,585**		**138,058**
Cash and cash equivalents, end of year	**$ 13,165**	**$ 250,606**	**$ -**	**$ 263,771**

Segment information for the year ended June 30, 2009, was as follows:

	Agency Operating Funds	Home-ownership Bond Funds	Elimina-tions	Total Enterprise Funds
Balance Sheet				
Current assets - other	$ 24,269	$ 146,717	$ (12,076)	$ 158,910
Capital assets - net	96	-		96
Noncurrent assets - other	13,334	831,823	142	845,299
Total assets	37,699	978,540	(11,934)	1,004,305
Current liabilities - other	21,980	43,683	(11,934)	53,729
Noncurrent liabilities - other	68	845,109		845,177
Total liabilities	22,048	888,792	(11,934)	898,906
Invested in capital assets	96	-		96
Net assets - unrestricted	15,555	-		15,555
Net assets - restricted	-	89,748		89,748
Total net assets	15,651	89,748		105,399

(continued on next page)

	Agency Operating Funds	Home-ownership Bond Funds	Elimina-tions	Total Enterprise Funds
Statement of Revenues, Expenses and Change in Fund Net Assets				
Operating revenues				
Mortgage interest income	$ 914	$ 44,721	$	$ 45,635
Investment income	-	6,595		6,595
Fee income	5,390	-	(3,818)	1,572
Depreciation	(4)	-		(4)
Other operating expenses	(6,396)	(45,037)	3,818	(47,615)
Operating income	(96)	6,279		6,183
Nonoperating revenues (expenses)				
HUD grants	12,157	-		12,157
Investment income	1,478	-		1,478
HUD grants	(12,157)	-		(12,157)
Transfers	31	-		31
Change in net assets	1,351	6,279		7,630
Total net assets, beginning of year	15,688	82,081		97,769
Equity transfer in (out)	(1,388)	1,388		-
Total net assets, end of year	$ 15,651	$ 89,748		$ 105,399
Statement of Cash Flows				
Net cash from (used in) operating activities	$ (3,319)	$ (5,021)	$ 139	$ (8,201)
Net cash used for noncapital financing activities	(2,601)	(117,006)	(139)	(119,746)
Net cash used for capital and related financing activities	(89)	-		(89)
Net cash from (used for) investing activities	6,861	(82)		6,779
Change in cash and cash equivalents	852	(122,109)		(121,257)
Cash and cash equivalents, beginning of year	12,621	246,694		259,315
Cash and cash equivalents, end of year	$ 13,473	$ 124,585	$ -	$ 138,058

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING BALANCE SHEETS
JUNE 30, 2010 AND 2009
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds	Total	Elimination	Totals 2010	Totals 2009
ASSETS						
CURRENT ASSETS - UNRESTRICTED						
Cash and cash equivalents	$ 2,391	$ -	$ 2,391	$ -	$ 2,391	$ 2,932
Due from State Agencies	117		117		117	98
Receivables						
Interest						
Loans	39		39		39	42
Investments	118		118		118	136
Due from HUD	174		174		174	157
Other	4,227		4,227	(3,680)	547	549
Current portion of service release premium, net	498		498		498	452
Prepaid expenses	36	14	50		50	46
Total unrestricted current assets	7,600	14	7,614	(3,680)	3,934	4,412
CURRENT ASSETS - RESTRICTED						
Cash and cash equivalents	10,774	250,606	261,380		261,380	135,126
Receivables						
Current portion of loans receivable	158	17,615	17,773		17,773	15,857
Interest						
Loans		3,844	3,844		3,844	3,503
Investments		13	13		13	12
Other		1,095	1,095	(1,095)		
Total restricted current assets	10,932	273,173	284,105	(1,095)	283,010	154,498
Total current assets	18,532	273,187	291,719	(4,775)	286,944	158,910
NONCURRENT ASSETS - UNRESTRICTED						
Service release premium, net	3,329		3,329		3,329	3,033
Equipment, net	85		85		85	96
Total unrestricted noncurrent assets	3,414	-	3,414		3,414	3,129
NONCURRENT ASSETS - RESTRICTED						
Loans receivable, net of current portion	6,024	898,602	904,626		904,626	808,387
Investments		12,292	12,292		12,292	13,345
Deferred outflow		19,751	19,751		19,751	13,391
Deferred bond financing costs, net		7,805	7,805	104	7,909	7,143
Total restricted noncurrent assets	6,024	938,450	944,474	104	944,578	842,266
Total noncurrent assets	9,438	938,450	947,888	104	947,992	845,395
Total assets	$ 27,970	$ 1,211,637	$ 1,239,607	$ (4,671)	$ 1,234,936	$ 1,004,305

(continued on next page)

COMBINING BALANCE SHEETS – page 2

	Agency Operating Funds	Homeownership Bond Funds	Total	Elimination	Totals 2010	Totals 2009
LIABILITIES						
CURRENT LIABILITIES						
Due to HUD	$ 51	$	$ 51	$	$ 51	$ 47
Due to State Agencies	18		18		18	36
Current portion of rebate due to IRS		469	469		469	497
Other	1,710	4,209	5,919	(4,671)	1,248	1,044
Current portion of compensated absences	142		142		142	133
Current portion of bonds payable		119,051	119,051		119,051	19,794
Loan from Bank of North Dakota						2,766
Accrued interest		18,474	18,474		18,474	19,149
Funds held in trust	10,774		10,774		10,774	10,542
Deferred credits						35
Total current liabilities	12,695	142,203	154,898	(4,671)	150,227	54,043
NONCURRENT LIABILITIES						
Compensated absences, net of current portion	81		81		81	68
Rebate due to IRS, net of current portion		1,054	1,054		1,054	1,612
Financial derivative instrument		19,751	19,751		19,751	13,391
Bonds payable, net of current portion		948,692	948,692		948,692	829,792
Total noncurrent liabilities	81	969,497	969,578	-	969,578	844,863
Total liabilities	12,776	1,111,700	1,124,476	(4,671)	1,119,805	898,906
NET ASSETS						
Invested in capital assets	85		85		85	96
Restricted for pledged assets						
Restricted for debt service		99,937	99,937		99,937	89,748
Unrestricted	15,109		15,109		15,109	15,555
Total net assets	15,194	99,937	115,131	-	115,131	105,399
Total liabilities and net assets	$ 27,970	$ 1,211,637	$ 1,239,607	$ (4,671)	$ 1,234,936	$ 1,004,305

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
(In Thousands)

	Agency Operating Funds	Home-ownership Bond Funds	Total	Elimina-tions	Totals 2010	Totals 2009
OPERATING REVENUES						
Mortgage interest income	$ 1,351	$ 46,515	$ 47,866	$ -	$ 47,866	$ 45,635
Investment income		3,769	3,769		3,769	6,595
Fee income	6,236		6,236	(4,454)	1,782	1,572
Total revenues	7,587	50,284	57,871	(4,454)	53,417	53,802
OPERATING EXPENSES						
Interest expense		36,644	36,644		36,644	40,204
Agency grants	519		519		519	569
Amortization of deferred bond financing costs		1,750	1,750		1,750	879
Administrative and operating expenses	3,034	4,808	7,842	(4,454)	3,388	3,547
Salaries and benefits	2,636		2,636		2,636	2,416
Depreciation	25		25		25	4
Total expenses	6,214	43,202	49,416	(4,454)	44,962	47,619
OPERATING INCOME	1,373	7,082	8,455	-	8,455	6,183
NONOPERATING REVENUE (EXPENSES)						
HUD grants	17,979		17,979		17,979	12,157
Investment income	1,168		1,168		1,168	1,478
HUD grants	(17,979)		(17,979)		(17,979)	(12,157)
Gain on liquidation of debt		139	139		139	
Total nonoperating revenues	1,168	139	1,307	-	1,307	1,478
INCOME BEFORE TRANSFERS	2,541	7,221	9,762	-	9,762	7,661

(continued on next page)

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

	Agency Operating Funds	Home-ownership Bond Funds	Total	Elimina-tions	Totals 2010	Totals 2009
TRANSFERS OUT						
Transfer to Industrial Commission	30		30		30	31
CHANGE IN NET ASSETS	2,511	7,221	9,732	-	9,732	7,630
TOTAL NET ASSETS, BEGINNING OF YEAR	15,651	89,748	105,399		105,399	97,769
EQUITY TRANSFER IN (OUT)	(2,968)	2,968				
TOTAL NET ASSETS, END OF YEAR	$ 15,194	$ 99,937	$ 115,131	$ -	$ 115,131	$ 105,399

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	Agency Operating Funds	Home-ownership Bond Funds	Total	Elimination	Totals 2010	Totals 2009
OPERATING ACTIVITIES						
Receipts from customers	$ 155,016	$ 25,927	$ 180,943	$ (7,300)	$ 173,643	$ 153,926
Payments of grants	(533)		(533)		(533)	(732)
Payments to service providers						
State agencies	(393)		(393)		(393)	(460)
Mortgage loan purchases	(140,461)	(73,724)	(214,185)		(214,185)	(151,344)
Other	(9,531)	(5,853)	(15,384)	7,262	(8,122)	(6,992)
Payments to employees	(2,630)		(2,630)		(2,630)	(2,410)
Payment of rebate to IRS		(468)	(468)		(468)	(189)
Net cash from (used in) operating activities	1,468	(54,118)	(52,650)	(38)	(52,688)	(8,201)
NONCAPITAL FINANCING ACTIVITIES						
Principal payments on loan from Bank of North Dakota	(136,285)		(136,285)		(136,285)	(46,462)
Principal payments on bonds payable		(217,896)	(217,896)		(217,896)	(206,925)
Proceeds from loan borrowings from Bank of North Dakota	133,519		133,519		133,519	45,641
Proceeds from bond issuance		436,883	436,883		436,883	130,000
Interest paid on loans and bonds	(185)	(37,314)	(37,499)		(37,499)	(40,733)
Payment of bond issue costs		(2,555)	(2,555)	38	(2,517)	(1,236)
Transfer to Industrial Commission	(30)		(30)		(30)	(31)
Interfund transfer in (out)	(1,021)	1,021				
Net cash from (used for) noncapital financing activities	(4,002)	180,139	176,137	38	176,175	(119,746)

(continued on next page)

COMBINING STATEMENTS OF CASH FLOWS – page 2

	Agency Operating Funds	Home-ownership Bond Funds	Total	Elimination	Totals 2010	Totals 2009
CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of equipment	(14)		(14)		(14)	(89)
INVESTING ACTIVITIES						
Purchase of investments						(5,942)
Proceeds from sale of investments	1,260		1,260		1,260	10,918
Interest received from investments	980		980		980	1,803
Net cash from investing activities	2,240	-	2,240	-	2,240	6,779
CHANGE IN CASH AND CASH EQUIVALENTS	(308)	126,021	125,713	-	125,713	(121,257)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,473	124,585	138,058		138,058	259,315
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 13,165	$ 250,606	$ 263,771	$ -	$ 263,771	$ 138,058

(continued on next page)

COMBINING STATEMENTS OF CASH FLOWS – page 3

	Agency Operating Funds	Home-ownership Bond Funds	Total	Elimination	Totals 2010	Totals 2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED IN) OPERATING ACTIVITIES						
Operating income	$ 1,373	$ 7,082	$ 8,455	$	$ 8,455	$ 6,183
Adjustments to reconcile operating income to net cash from (used in) operating activities						
Depreciation	25		25		25	4
Amortization						
Deferred bond financing costs		1,750	1,750		1,750	879
Original issue discounts and premiums		(691)	(691)		(691)	(634)
Service release premiums	927		927		927	807
Reclassification of investment expense to other activities	178	36,643	36,821		36,821	40,602
Changes in assets and liabilities						
Due from HUD	(17)		(17)		(17)	48
Due from State Agencies	(19)		(19)		(19)	25
Other receivables	5,402	1,900	7,302	(7,300)	2	4
Service release premium	(1,267)		(1,267)		(1,267)	(991)
Prepaid expenses	(2)	(2)	(4)		(4)	(22)
Loan interest receivable	2	(340)	(338)		(338)	(337)
Loans receivable	1,366	(99,521)	(98,155)		(98,155)	(55,177)
Due to HUD	4		4		4	(210)
Due to State Agencies	(18)		(18)		(18)	26
Rebate due to IRS		(586)	(586)		(586)	(123)
Other liabilities	(6,705)	(353)	(7,058)	7,262	204	274
Compensated absences	22		22		22	13
Funds held in trust	232		232		232	388
Deferred credits and revenues	(35)		(35)		(35)	40
Net cash from (used in) operating activities	$ 1,468	$ (54,118)	$ (52,650)	$ (38)	$ (52,688)	$ (8,201)
Non-cash disclosures						
Increase (decrease) in fair value of investments	$ 207	$ -	$ 207		$ 207	$ (246)
Gain on the liquidation of debt		$ 139	$ 139		$ 139	$ -
Investment transfers	$ 1,053	$ (1,053)	$ -		$ -	$ -
Transfers associated with refunded bond issues	$ 3,000	$ (3,000)	$ -		$ -	$ -

NORTH DAKOTA HOUSING FINANCE AGENCY
SEGMENT INFORMATION
JUNE 30, 2010 AND 2009
(In Thousands)

FINANCIAL DATA

	2010	2009
Total Assets		
Agency Fund	**$ 27,970**	$ 37,699
1994 General Pledged	**12,291**	13,345
1994 D/E Homeownership Fund	**-**	5,858
1996 C Homeownership Fund	**-**	4,416
1996 D Homeownership Fund	**-**	4,540
1997 A Homeownership Fund	**-**	1,381
1997 B Homeownership Fund	**-**	1,752
1997 C Homeownership Fund	**-**	4,780
1997 D Homeownership Fund	**-**	7,159
1997 F Homeownership Fund	**-**	1,972
1997 G Homeownership Fund	**-**	5,222
1998 A Homeownership Fund	**-**	5,419
1998 B Homeownership Fund	**-**	12,370
1998 E Homeownership Fund	**-**	4,866
1998 F Homeownership Fund	**1,029**	1,251
1999 A Homeownership Fund	**-**	14,847
1999 B Homeownership Fund	**-**	763
1999 D Homeownership Fund	**-**	8,061
2000 A Homeownership Fund	**23,708**	10,509
2000 C Homeownership Fund	**10,249**	12,531
2001 A Homeownership Fund	**17,320**	22,446
2001 C Homeownership Fund	**10,188**	13,068
2002 A Homeownership Fund	**11,250**	15,037
2002 B Homeownership Fund	**14,607**	17,729
2002 C Homeownership Fund	**20,062**	21,945
2003 A Homeownership Fund	**27,856**	31,230
2003 B Homeownership Fund	**30,363**	34,427
2004 B Homeownership Fund	**31,847**	36,779
2004 C Homeownership Fund	**39,945**	46,809
2005 A Homeownership Fund	**56,165**	62,510
2005 C Homeownership Fund	**42,834**	51,840
2006 A Homeownership Fund	**98,441**	119,177
2007 AB Homeownership Fund	**78,616**	89,173
2007 CD Homeownership Fund	**80,509**	88,955
2008 A Homeownership Fund	**51,593**	52,850
2008 B Homeownership Fund	**16,200**	17,050
2008 C Homeownership Fund	**-**	194
2008 D Homeownership Fund	**131,280**	136,279
2009 AB Homeownership Fund	**137,959**	-
2009 CD Homeownership Fund	**84,733**	-
2009 General Collateral	**3,000**	-
2009 E Homeownership Fund	**97,131**	-
2010 AB Homeownership Fund	**82,461**	-
	$ 1,239,607	$ 1,016,239

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

(continued on next page)

	2010	2009
Bonds Payable, Net of Discount		
1996 C Homeownership Fund	**$ -**	$ 2,010
1996 D Homeownership Fund	**-**	4,205
1997 A Homeownership Fund	**-**	335
1997 B Homeownership Fund	**-**	1,485
1997 C Homeownership Fund	**-**	3,825
1997 D Homeownership Fund	**-**	6,385
1997 F Homeownership Fund	**-**	1,280
1997 G Homeownership Fund	**-**	3,825
1998 A Homeownership Fund	**-**	3,990
1998 B Homeownership Fund	**-**	10,270
1998 E Homeownership Fund	**-**	3,570
1998 F Homeownership Fund	**1,997**	2,276
1999 A Homeownership Fund	**-**	12,925
1999 B Homeownership Fund	**-**	530
1999 D Homeownership Fund	**-**	6,725
2000 C Homeownership Fund	**5,180**	7,700
2001 A Homeownership Fund	**13,585**	20,805
2001 C Homeownership Fund	**9,200**	12,310
2002 A Homeownership Fund	**8,940**	13,970
2002 B Homeownership Fund	**13,825**	16,725
2003 A Homeownership Fund	**24,835**	28,730
2003 B Homeownership Fund	**25,880**	30,185
2004 B Homeownership Fund	**27,570**	33,300
2004 C Homeownership Fund	**36,480**	43,155
2005 A Homeownership Fund	**48,680**	56,075
2005 C Homeownership Fund	**38,480**	47,735
2006 A Homeownership Fund	**88,970**	110,198
2007 AB Homeownership Fund	**73,472**	84,156
2007 CD Homeownership Fund	**76,544**	84,972
2008 A Homeownership Fund	**48,871**	50,624
2008 B Homeownership Fund	**14,130**	15,310
2008 D Homeownership Fund	**123,885**	130,000
2009 AB Homeownership Fund	**128,885**	-
2009 CD Homeownership Fund	**80,734**	-
2009 E Homeownership Fund	**97,100**	-
2010 AB Homeownership Fund	**80,500**	-
	$ 1,067,743	$ 849,586

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

(continued on next page)

SEGMENT INFORMATION – page 3

	2010	2009
Net Assets (Deficits)		
Reserved for Debt Service		
1994 General Pledged	**$ 12,292**	$ 13,345
1994 D/E Homeownership Fund	**-**	4,376
1996 C Homeownership Fund	**-**	2,287
1996 D Homeownership Fund	**-**	194
1997 A Homeownership Fund	**-**	1,029
1997 B Homeownership Fund	**-**	70
1997 C Homeownership Fund	**-**	827
1997 D Homeownership Fund	**-**	581
1997 F Homeownership Fund	**-**	643
1997 G Homeownership Fund	**-**	1,246
1998 A Homeownership Fund	**-**	1,292
1998 B Homeownership Fund	**-**	1,622
1998 E Homeownership Fund	**-**	1,169
1998 F Homeownership Fund	**(1,023)**	(1,094)
1999 A Homeownership Fund	**-**	1,474
1999 B Homeownership Fund	**-**	214
1999 D Homeownership Fund	**-**	1,018
2000 A Homeownership Fund	**23,133**	10,466
2000 C Homeownership Fund	**4,652**	4,367
2001 A Homeownership Fund	**3,149**	907
2001 C Homeownership Fund	**679**	392
2002 A Homeownership Fund	**1,972**	616
2002 B Homeownership Fund	**624**	179
2002 C Homeownership Fund	**20,062**	21,945
2003 A Homeownership Fund	**2,734**	1,955
2003 B Homeownership Fund	**3,135**	2,695
2004 B Homeownership Fund	**2,641**	2,002
2004 C Homeownership Fund	**1,202**	1,070
2005 A Homeownership Fund	**4,948**	4,056
2005 C Homeownership Fund	**2,131**	2,111
2006 A Homeownership Fund	**2,361**	2,388
2007 AB Homeownership Fund	**2,029**	1,662
2007 CD Homeownership Fund	**1,665**	1,308
2008 A Homeownership Fund	**70**	104
2008 B Homeownership Fund	**(39)**	(27)
2008 C Homeownership Fund	**-**	194
2008 D Homeownership Fund	**1,230**	1,065
2009 AB Homeownership Fund	**3,177**	-
2009 CD Homeownership Fund	**2,273**	-
2009 General Collateral	**3,000**	-
2009 E Homeownership Fund	**1**	-
2010 AB Homeownership Fund	**1,839**	-
Unrestricted		
Agency Fund	**15,194**	15,651
	$ 115,131	$ 105,399

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

(continued on next page)

SEGMENT INFORMATION – page 4

OPERATING DATA	2010	2009
Revenues		
Agency Fund	**$ 7,587**	$ 6,304
1994 D/E Homeownership Fund	**365**	265
1996 C Homeownership Fund	**48**	313
1996 D Homeownership Fund	**37**	257
1997 A Homeownership Fund	**13**	100
1997 B Homeownership Fund	**18**	109
1997 C Homeownership Fund	**43**	303
1997 D Homeownership Fund	**58**	429
1997 F Homeownership Fund	**21**	142
1997 G Homeownership Fund	**51**	346
1998 A Homeownership Fund	**51**	339
1998 B Homeownership Fund	**112**	747
1998 E Homeownership Fund	**44**	278
1998 F Homeownership Fund	**73**	91
1999 A Homeownership Fund	**126**	866
1999 B Homeownership Fund	**22**	47
1999 D Homeownership Fund	**93**	511
2000 A Homeownership Fund	**934**	635
2000 C Homeownership Fund	**687**	825
2001 A Homeownership Fund	**1,106**	1,384
2001 C Homeownership Fund	**611**	756
2002 A Homeownership Fund	**741**	945
2002 B Homeownership Fund	**802**	967
2002 C Homeownership Fund	**1,317**	1,402
2003 A Homeownership Fund	**1,357**	1,467
2003 B Homeownership Fund	**1,547**	1,697
2004 B Homeownership Fund	**1,579**	1,774
2004 C Homeownership Fund	**2,139**	2,493
2005 A Homeownership Fund	**2,530**	2,677
2005 C Homeownership Fund	**2,164**	2,466
2006 A Homeownership Fund	**4,841**	6,035
2007 AB Homeownership Fund	**3,961**	4,537
2007 CD Homeownership Fund	**4,761**	6,113
2008 A Homeownership Fund	**2,537**	2,644
2008 B Homeownership Fund	**780**	866
2008 C Homeownership Fund	**1**	1,112
2008 D Homeownership Fund	**7,118**	5,378
2009 AB Homeownership Fund	**5,424**	-
2009 CD Homeownership Fund	**2,024**	-
2009 E Homeownership Fund	**45**	-
2010 AB Homeownership Fund	**103**	
	$ 57,871	$ 57,620

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

(continued on next page)

		2010		2009
Interest Expense				
1996 C Homeownership Fund	**$**	**16**	$	136
1996 D Homeownership Fund		**76**		258
1997 A Homeownership Fund		**-**		27
1997 B Homeownership Fund		**14**		94
1997 C Homeownership Fund		**63**		215
1997 D Homeownership Fund		**100**		343
1997 F Homeownership Fund		**22**		83
1997 G Homeownership Fund		**57**		227
1998 A Homeownership Fund		**56**		225
1998 B Homeownership Fund		**173**		573
1998 E Homeownership Fund		**59**		194
1998 F Homeownership Fund		**123**		144
1999 A Homeownership Fund		**216**		684
1999 B Homeownership Fund		**17**		39
1999 D Homeownership Fund		**57**		412
2000 C Homeownership Fund		**334**		475
2001 A Homeownership Fund		**849**		1,138
2001 C Homeownership Fund		**505**		637
2002 A Homeownership Fund		**551**		772
2002 B Homeownership Fund		**415**		1,002
2003 A Homeownership Fund		**380**		780
2003 B Homeownership Fund		**890**		1,135
2004 B Homeownership Fund		**697**		1,002
2004 C Homeownership Fund		**1,662**		1,988
2005 A Homeownership Fund		**1,176**		1,685
2005 C Homeownership Fund		**1,824**		2,107
2006 A Homeownership Fund		**4,236**		5,162
2007 AB Homeownership Fund		**3,269**		3,859
2007 CD Homeownership Fund		**3,928**		5,317
2008 A Homeownership Fund		**2,269**		2,372
2008 B Homeownership Fund		**704**		973
2008 C Homeownership Fund		**-**		1,110
2008 D Homeownership Fund		**6,203**		5,036
2009 AB Homeownership Fund		**3,899**		-
2009 CD Homeownership Fund		**1,637**		-
2009 E Homeownership Fund		**45**		-
2010 AB Homeownership Fund		**122**		-
	$	**36,644**	$	40,204

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

(continued on next page)

SEGMENT INFORMATION – page 6

	2010	2009
Change in net assets		
Agency Fund	**$ 2,511**	$ 1,351
1994 D/E Homeownership Fund	**347**	256
1996 C Homeownership Fund	**14**	151
1996 D Homeownership Fund	**(80)**	(29)
1997 A Homeownership Fund	**10**	63
1997 B Homeownership Fund	**(15)**	1
1997 C Homeownership Fund	**(52)**	62
1997 D Homeownership Fund	**(94)**	42
1997 F Homeownership Fund	**(12)**	47
1997 G Homeownership Fund	**(40)**	90
1998 A Homeownership Fund	**(40)**	82
1998 B Homeownership Fund	**(155)**	89
1998 E Homeownership Fund	**(56)**	53
1998 F Homeownership Fund	**(55)**	(59)
1999 A Homeownership Fund	**(211)**	99
1999 B Homeownership Fund	**2**	4
1999 D Homeownership Fund	**(27)**	53
2000 A Homeownership Fund	**898**	594
2000 C Homeownership Fund	**285**	268
2001 A Homeownership Fund	**112**	127
2001 C Homeownership Fund	**30**	43
2002 A Homeownership Fund	**96**	95
2002 B Homeownership Fund	**243**	(183)
2002 C Homeownership Fund	**1,268**	1,352
2003 A Homeownership Fund	**778**	489
2003 B Homeownership Fund	**440**	356
2004 B Homeownership Fund	**639**	540
2004 C Homeownership Fund	**132**	205
2005 A Homeownership Fund	**892**	593
2005 C Homeownership Fund	**21**	57
2006 A Homeownership Fund	**(27)**	303
2007 AB Homeownership Fund	**367**	277
2007 CD Homeownership Fund	**357**	391
2008 A Homeownership Fund	**(35)**	7
2008 B Homeownership Fund	**(12)**	(186)
2008 C Homeownership Fund	**1**	2
2008 D Homeownership Fund	**165**	(55)
2009 AB Homeownership Fund	**858**	-
2009 CD Homeownership Fund	**201**	-
2009 E Homeownership Fund	**1**	-
2010 AB Homeownership Fund	**(25)**	-
	$ 9,732	$ 7,630

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

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT – SECTION 8 FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2010

Line Item #	Description	NC S/R Section 8 Programs	Section 8 Moderate Rehabilitation Single Room Occupancy	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0001	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0002	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0003	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0004	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0005
	Assets							
111	Cash - Unrestricted	139,662	17,475	39,884	12,988	13,096	9,428	1
113	Cash - Other Restricted	9	3,352	31,167	-	-	8,956	-
100	**Total Cash**	**139,671**	**20,827**	**71,051**	**12,988**	**13,096**	**18,384**	**1**
122	Accounts Receivable - HUD Other Projects	112,421	-	-	314	1,436	-	12,827
125	Accounts Receivable - Miscellaneous	150	38	83	39	38	21	27
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-
120	**Total Receivables, net of allowance for doubtful**	**112,571**	**38**	**83**	**353**	**1,474**	**21**	**12,854**
142	Prepaid Expenses and Other Assets	4,865	61	132	63	61	32	43
150	**Total Current Assets**	**257,107**	**20,926**	**71,266**	**13,404**	**14,631**	**18,437**	**12,898**
160	**Total Fixed Assets, Net of Accumulated Depreciation**	-	-	-	-	-	-	-
180	**Total Non-Current Assets**	-	-	-	-	-	-	-
190	**Total Assets**	**257,107**	**20,926**	**71,266**	**13,404**	**14,631**	**18,437**	**12,898**
	Liabilities and Equity							
311	Bank Overdraft	-	-	-	-	-	-	498
312	Accounts Payable <= 90 Days	14,425	133	288	138	133	72	94
331	Accounts Payable - HUD PHA Programs	9	3,352	31,167	-	-	8,956	-
310	**Total Current Liabilities**	**14,434**	**3,485**	**31,455**	**138**	**133**	**9,028**	**592**
350	**Total Noncurrent Liabilities**	-	-	-	-	-	-	-
300	**Total Liabilities**	**14,434**	**3,485**	**31,455**	**138**	**133**	**9,028**	**592**
508	Total Contributed Capital	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	-	-	-
512.1	Unrestricted Net Assets	242,673	17,441	39,811	13,266	14,498	9,409	12,306
513	**Total Equity/Net Assets**	**242,673**	**17,441**	**39,811**	**13,266**	**14,498**	**9,409**	**12,306**
600	**Total Liabilities and Equity/Net Assets**	**257,107**	**20,926**	**71,266**	**13,404**	**14,631**	**18,437**	**12,898**
	Revenue							
705	Total Tenant Revenue	-	-	-	-	-	-	-
706	HUD PHA Operating Grants	11,252,884	55,555	222,664	73,467	79,187	69,397	94,653
711	Investment Income - Unrestricted	-	9	23	11	10	6	7
120	Investment Income - Restricted	137	-	-	-	-	-	-
700	**Total Revenue**	**11,253,021**	**55,564**	**222,687**	**73,478**	**79,197**	**69,403**	**94,660**
	Expenses							
911	Administrative Salaries	341,232	4,223	9,148	4,398	4,222	2,287	2,991
912	Auditing Fees	8,244	121	263	127	122	66	86
915	Employee Benefit Contribution - Administrative	125,023	1,571	3,405	1,637	1,571	851	1,113
916	Other Operating - Administrative	198,109	4,404	9,545	4,588	4,405	2,387	3,119
969	**Total Operating Expenses**	**672,608**	**10,319**	**22,361**	**10,750**	**10,320**	**5,591**	**7,309**
970	**Excess Operating Revenue Over Operating Expenses**	**10,580,413**	**45,245**	**200,326**	**62,728**	**68,877**	**63,812**	**87,351**
973	Housing Assistance Payments	10,622,215	38,613	186,087	55,818	62,245	60,220	82,653
900	**Total Expenses**	**11,294,823**	**48,932**	**208,448**	**66,568**	**72,565**	**65,811**	**89,962**
1010	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
1000	**Excess (Deficiency) of Operating Revenue Over (Under) Expenses**	**(41,802)**	**6,632**	**14,239**	**6,910**	**6,632**	**3,592**	**4,698**
	Memo Account Information							
1102	Debt Principal Payment - Enterprise Funds	-	-	-	-	-	-	-
1103	Beginning Equity	284,475	10,809	25,574	6,356	8,151	5,817	7,608
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	(2)	-	(285)	-	-
1113	Maximum Annual Contributions Commitment (per ACC)	6,455,338	1,797	384,660	147,913	66,967	77,939	81,316
1114	Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 Months	-	-	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	5,985,863	-	203,425	74,446	35,968	18,840	1,513
1116	**Total Annual Contributions Available**	**12,441,201**	**1,797**	**588,085**	**222,359**	**102,935**	**96,779**	**82,829**
1120	Unit Months Available	39,816	288	624	300	288	156	204
1121	Number of Unit Months Leased	39,816	288	624	300	288	156	204

(continued on next page)

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

Line Item #	Description	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0006	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0008	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0009	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0010	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitate ND901MR0011
	Assets					
111	Cash - Unrestricted	26,364	8,700	28,495	1,673	9,082
113	Cash - Other Restricted	-	120	7,050	-	-
100	**Total Cash**	**26,364**	**8,820**	**35,545**	**1,673**	**9,082**
122	Accounts Receivable - HUD Other Projects	34,710	-	-	12,108	497
125	Accounts Receivable - Miscellaneous	183	19	57	29	29
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
120	**Total Receivables, net of allowance for doubtful**	**34,893**	**19**	**57**	**12,137**	**526**
142	Prepaid Expenses and Other Assets	291	30	91	46	46
150	**Total Current Assets**	**61,548**	**8,869**	**35,693**	**13,856**	**9,654**
160	**Total Fixed Assets, Net of Accumulated Depreciation**	**-**	**-**	**-**	**-**	**-**
180	**Total Non-Current Assets**	**-**	**-**	**-**	**-**	**-**
190	**Total Assets**	**61,548**	**8,869**	**35,693**	**13,856**	**9,654**
	Liabilities and Equity					
311	Bank Overdraft	-	-	-	-	-
312	Accounts Payable <= 90 Days	636	66	199	100	100
331	Accounts Payable - HUD PHA Programs	-	120	7,050	-	-
310	**Total Current Liabilities**	**636**	**186**	**7,249**	**100**	**100**
350	**Total Noncurrent Liabilities**	**-**	**-**	**-**	**-**	**-**
300	**Total Liabilities**	**636**	**186**	**7,249**	**100**	**100**
508	Total Contributed Capital	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	-
512.1	Unrestricted Net Assets	60,912	8,683	28,444	13,756	9,554
513	**Total Equity/Net Assets**	**60,912**	**8,683**	**28,444**	**13,756**	**9,554**
600	**Total Liabilities and Equity/Net Assets**	**61,548**	**8,869**	**35,693**	**13,856**	**9,654**
	Revenue					
705	Total Tenant Revenue	-	-	-	-	-
706	HUD PHA Operating Grants	284,066	46,725	106,619	109,322	48,683
711	Investment Income - Unrestricted	50	5	16	8	8
120	Investment Income - Restricted	-	-	-	-	-
700	**Total Revenue**	**284,116**	**46,730**	**106,635**	**109,330**	**48,691**
	Expenses					
911	Administrative Salaries	20,232	2,111	6,334	3,167	3,167
912	Auditing Fees	583	61	182	91	91
915	Employee Benefit Contribution - Administrative	7,529	786	2,357	1,179	1,179
916	Other Operating - Administrative	21,107	2,202	6,607	3,303	3,303
969	**Total Operating Expenses**	**49,451**	**5,160**	**15,480**	**7,740**	**7,740**
970	**Excess Operating Revenue Over Operating Expenses**	**234,665**	**41,570**	**91,155**	**101,590**	**40,951**
973	Housing Assistance Payments	202,884	38,253	81,206	96,615	35,976
900	**Total Expenses**	**252,335**	**43,413**	**96,686**	**104,355**	**43,716**
1010	Total Other Financing Sources (Uses)	-	-	-	-	-
1000	**Excess (Deficiency) of Operating Revenue Over (Under) Expenses**	**31,781**	**3,317**	**9,949**	**4,975**	**4,975**
	Memo Account Information					
1102	Debt Principal Payment - Enterprise Funds	-	-	-	-	-
1103	Beginning Equity	29,131	5,366	18,495	8,781	4,579
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-
1113	Maximum Annual Contributions Commitment (per ACC)	356,603	101,612	208,418	109,322	115,267
1114	Prorate Maximum Annual Contributions Applicable to a Period of Less than 12 Months	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	256,912	57,496	209,258	-	197,451
1116	**Total Annual Contributions Available**	**613,515**	**159,108**	**417,676**	**109,322**	**312,718**
1120	Unit Months Available	1,380	144	432	216	216
1121	Number of Unit Months Leased	1,380	144	432	216	216

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010 — EXHIBIT A-1

Federal Grantor/Federal Agency /Pass through Agency/Program	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Department of Agriculture			
Rural Housing Service Division			
Very Low to Moderate Income Housing Loans	10.410		$ 30,907,226
Department of Housing and Urban Development			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117		137,976,656
Rent Supplements - Rental Housing for Lower Income Families	14.149		11,294,823
Housing Counseling Assistance Program	14.169		165,138
Lower Income Housing Assistance Program -			
Section 8 Moderate Rehabilitation	14.856		1,043,860
Section 8 Moderate Rehabilitation - Single room occupancy	14.249		48,932
Section 8 Cluster			1,092,792
Community Planning and Development Division			
Pass through from ND Department of Commerce			
HOME Investment Partnership Program	14.239	2248	346,239
Community Development Block Grants	14.228	2409	3,592,989
Total Department of Housing and Urban Development			154,468,637
Department of Veterans Affairs			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114		10,120,575
TOTAL			$ 195,496,438

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

(continued on next page)

NOTE 2 - LOAN GUARANTEES AND INSURANCE

The following is the balance of federal loan guarantees and insurance outstanding as of June 30, 2010 and 2009.

		2010	2009
Very Low to Moderate Income Housing Loans	10.410	**$ 107,661,122**	$ 87,754,535
Mortgage Insurance - Homes	14.117	**515,283,434**	446,728,247
Veterans Housing - Guaranteed and Insured Loans	64.114	**60,064,376**	59,054,118

FINDINGS - NONE

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the **North Dakota Housing Finance Agency** as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **North Dakota Housing Finance Agency's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **North Dakota Housing Finance Agency** in a separate letter dated October 20, 2010.

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

Eide Bailly LLP

Bismarck, North Dakota
October 20, 2010

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

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of the **North Dakota Housing Finance Agency** with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The **North Dakota Housing Finance Agency's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **North Dakota Housing Finance Agency's** management. Our responsibility is to express an opinion on the **North Dakota Housing Finance Agency's** compliance based on our audit.

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

In our opinion, the **North Dakota Housing Finance Agency** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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Internal Control over Compliance

Management of the **North Dakota Housing Finance Agency** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **North Dakota Housing Finance Agency's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota Housing Finance Agency's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 20, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion of the financial statements of the **North Dakota Housing Finance Agency**.
2. No significant deficiencies or material weaknesses were disclosed by our audit of the financial statements of the **North Dakota Housing Finance Agency**.
3. No instances of noncompliance material to the financial statements of the **North Dakota Housing Finance Agency**, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for the **North Dakota Housing Finance Agency** expresses an unqualified opinion on all major Federal award programs.
5. No significant deficiencies or material weaknesses were disclosed relative to the major federal award programs for the **North Dakota Housing Finance Agency**.
6. The audit disclosed no audit findings required to be reported under Section 510(a) of OMB Circular A-133.
7. The major programs tested were Very Low to Moderate Income Housing Loans, CFDA # 10.410, Mortgage Insurance – Homes, CFDA # 14.117, Rent Supplements – Rental Housing for Lower Income Families, CFDA # 14.149 and Community Development Block Grants, CFDA # 14.228.
8. The threshold for distinguishing a Type A program was $1,725,593.
9. The **North Dakota Housing Finance Agency** qualified as a low-risk auditee for the year ended June 30, 2010.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

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EXHIBIT B-1

NORTH DAKOTA HOUSING FINANCE AGENCY
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2010

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2010 audit of the Agency are as follows:

Audit Report Communications:

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

   Unqualified

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

   Yes

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

   Yes

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

   No

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

   There were no prior audit findings.

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

   Yes, a separate management letter has been issued and is attached following page 66. Please refer to this document for all recommendations and agency responses.

Audit Committee Communications:

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

   The North Dakota Housing Finance Agency adopted accounting policies related to interest rate swaps by implementing Statement of Governmental Accounting Standards (GASB Statement) No. 53, Accounting and Financial Reporting for Derivative Instruments.

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

   None

3. **Identify any significant audit adjustments.**

   None

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None

5. **Identify any significant difficulties encountered in performing the audit.**

   None

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

   None

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

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

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 20, 2010

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CPAs & BUSINESS ADVISORS

October 20, 2010

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

We have audited the financial statements of North Dakota Housing Finance Agency for the year ended June 30, 2010. 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 July 20, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Housing Finance Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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 estimate affecting the financial statements was:

> *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.

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As described in Note 1 to the financial statements, the North Dakota Housing Finance Agency adopted accounting policies related to interest rate swaps by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 53, Accounting and Financial Reporting for Derivative Instruments, in 2010. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement Net Assets.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2010.

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.

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

Eide Bailly LLP

Bismarck, North Dakota
October 20, 2010