

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly above, in all material respects, the net financial position of the business-type activities of the North Dakota Housing Finance Agency, as of June 30, 2014 and 2013, and its revenues, expenses and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the North Dakota Housing Finance Agency are intended to present the net position, revenues, expenses and cash flows of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the North Dakota Housing Finance Agency. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2014 and 2013, 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.

Also discussed in Note 1 to the financial statements, the North Dakota Housing Finance Agency adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, see note 22 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

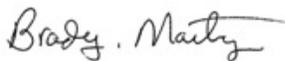
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Housing Finance Agency's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The accompanying supplementary information on pages 44 through 57 and schedule of expenditures of federal awards are presented for purposes of additional analysis and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 8, 2014

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Housing Finance Agency (Agency) that follows is meant to provide additional insight into the Agency's activities for the years ended June 30, 2014, 2013 and 2012. Please read it in conjunction with the Agency's financial statements and footnotes, which are presented within this report.

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

Financial Highlights

Mortgage loans receivable decreased \$50,106 to \$629,259 from FY2013 to FY2014. This is the net change of \$165,084 in loans purchased, \$215,253 of repaid principal, a net change in loan premiums/discounts of \$42 and a decrease of \$105 in mortgage loan loss reserve.

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

Bonds payable decreased in FY2014 by \$41,959 to \$653,959 with \$147,025 new bonds issued and \$189,830 bonds called or matured and a \$846 net increase in bond premiums and discounts. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

Bonds payable decreased in FY2013 by \$144,797 to \$695,918 with \$64,510 new bonds issued, \$209,045 bonds being called or maturing and a \$262 net decrease in bond premiums and discounts. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

The loan from Bank of North Dakota decreased from \$8,653 in FY 2013 to \$0 in FY2014. The loan had decreased from \$34,801 in FY 2012 to \$8,653 in FY2013. \$59,350 of new loans were obtained and \$68,003 of principal payments were made in FY2014. \$95,258 of new loans were obtained and \$121,406 of principal payments were made in FY2013.

The Agency's net position increased in FY2014 from the restated 2013 net position by \$7,840 to \$143,432 as a result of this year's program operations and financing activities.

The Agency's net position increased in FY2013 by \$8,856 to \$135,592 as a result of the year's program operations and financing activities. The FY2013 End of Year net position was restated in FY2014 to \$135,592 due the implementation of GASB 65.

FY2014 Income Before Transfers of \$7,455 was down from the prior year restated amount by \$801 as a result of the decrease in Settlement Funds in addition to lower mortgage interest income offset by lower interest expense.

FY2013 Income Before Transfers of \$8,256 was down from the prior year by \$1,103 due to a reduction in mortgage loans receivable outstanding.

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Operating revenues in FY2014 of \$36,204 were down \$6,600 from the prior year as a net result of fewer single family mortgages outstanding. This was a result of significant Prepayments received due to borrowers refinancing or selling their homes and the interest rate on new loans continuing to stay low. In addition, NDHFA continued to bundle qualified mortgage loans into Mortgage Backed Securities eliminating the interest income revenue stream on those mortgage loans. This loss of revenue stream is partially offset by selling the MBS at a premium.

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

FY2014 operating expenses of \$28,697 were down from the FY2013 restated operating expenses by \$6,553 as a result of lower interest expense along with the effect of the GASB 65 implementation adjustment to the FY2013 operating expenses. Interest expense decreased substantially as higher coupon bonds were paid off and new bonds were sold with lower interest rates.

Restated FY2013 operating expenses of \$35,250 were down \$7,645 from FY2012 as a result of lower interest expense due to less bonds outstanding and lower general operating expenses and the effects of the GASB 65 implementation adjustment.

Overview of the Financial Statements

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

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Condensed Statement of Net Position
June 30, 2014, 2013 and 2012
(In Thousands)

	2014	Restated 2013	2012	Change	Percentage
ASSETS					
Unrestricted current assets	\$ 9,108	\$ 5,804	\$ 4,970	\$ 3,304	57 %
Restricted current assets	185,961	180,600	172,893	5,361	3
Total current assets	<u>195,069</u>	<u>186,404</u>	<u>177,863</u>	<u>8,665</u>	<u>5</u>
Unrestricted noncurrent assets	2,525	5,193	4,028	(2,668)	(51)
Restricted noncurrent assets	625,548	675,765	856,036	(50,217)	(7)
	<u>628,073</u>	<u>680,958</u>	<u>860,064</u>	<u>(52,885)</u>	<u>(8)</u>
Total assets	<u>\$ 823,142</u>	<u>\$ 867,362</u>	<u>\$ 1,037,927</u>	<u>\$ (44,220)</u>	<u>(5) %</u>
DEFERRED OUTFLOW OF RESOURCES					
Financial derivative instrument	<u>\$ 10,653</u>	<u>\$ 12,866</u>	<u>\$ 18,580</u>	<u>\$ (2,213)</u>	<u>(17) %</u>
LIABILITIES					
Current liabilities	\$ 63,593	\$ 44,647	\$ 69,642	\$ 18,946	42 %
Noncurrent liabilities	626,770	699,989	853,835	(73,219)	(10)
Total liabilities	<u>\$ 690,363</u>	<u>\$ 744,636</u>	<u>\$ 923,477</u>	<u>\$ (54,273)</u>	<u>(7) %</u>
NET POSITION					
Invested in capital assets	\$ 1	\$ 20	\$ 39	\$ (19)	(95) %
Restricted for debt service	131,330	118,340	119,220	12,990	11
Unrestricted	12,101	17,232	13,771	(5,131)	(30)
Total net position	<u>\$ 143,432</u>	<u>\$ 135,592</u>	<u>\$ 133,030</u>	<u>\$ 7,840</u>	<u>6 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014, 2013 and 2012
(In Thousands)

	2014	Restated 2013	2012	Change	Percentage
OPERATING REVENUES					
Mortgage interest income	\$ 30,064	\$ 34,468	\$ 44,326	\$ (4,404)	(13) %
Investment income	2,463	3,212	3,312	(749)	(23)
Gain on sale of investment	529	2,830	-	(2,301)	(81)
Gain on sale of loans receivable	-	-	973	-	-
Fee income	3,148	2,294	1,096	854	37
Total revenues	<u>36,204</u>	<u>42,804</u>	<u>49,707</u>	<u>(6,600)</u>	<u>(15)</u>
OPERATING EXPENSES					
Interest expense	19,695	25,960	33,330	(6,265)	(24)
Agency grants	1,530	1,464	279	66	5
Amortization of deferred bond financing costs	-	-	1,804	-	-
Administrative and operating expenses	4,339	4,705	4,558	(366)	(8)
Salaries and benefits	3,114	3,102	2,903	12	0
Depreciation	19	19	21	-	-
Total expenses	<u>28,697</u>	<u>35,250</u>	<u>42,895</u>	<u>(6,553)</u>	<u>(19)</u>
OPERATING INCOME	<u>7,507</u>	<u>7,554</u>	<u>6,812</u>	<u>(47)</u>	<u>(1)</u>
NONOPERATING REVENUES (EXPENSES)					
Federal grants	11,825	11,287	12,803	538	5
Miscellaneous revenue	44	-	-	44	-
Settlement grants	-	1,000	1,940	(1,000)	(100)
Investment income	286	292	960	(6)	(2)
Federal grants	<u>(12,207)</u>	<u>(11,877)</u>	<u>(13,156)</u>	<u>(330)</u>	<u>3</u>
	<u>(52)</u>	<u>702</u>	<u>2,547</u>	<u>(754)</u>	<u>(107)</u>
INCOME BEFORE TRANSFERS	7,455	8,256	9,359	(801)	(10)
TRANSFERS					
Transfers from Dept. of Commerce	415	628	401	(213)	(34)
Transfers to Industrial Commission	<u>(30)</u>	<u>(28)</u>	<u>(29)</u>	<u>(2)</u>	<u>7</u>
CHANGE IN NET POSITION	7,840	8,856	9,731	(1,016)	(11)
TOTAL NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	<u>135,592</u>	<u>133,030</u>	<u>123,299</u>	<u>2,562</u>	<u>2</u>
GASB 65 ADJUSTMENT	<u>-</u>	<u>(6,294)</u>	<u>-</u>	<u>6,294</u>	<u>(100)</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>135,592</u>	<u>126,736</u>	<u>123,299</u>	<u>8,856</u>	<u>7</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 143,432</u>	<u>\$ 135,592</u>	<u>\$ 133,030</u>	<u>\$ 7,840</u>	<u>6 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Investment Income

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

FY2014 Operating interest income of \$2,463 was down \$749 from the prior year. This was due to very low investment rates on newer Investment Contracts and fewer dollars invested.

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

Non-operating interest income represents earnings on the Agencies investments. These funds are invested in US Treasury securities, Mortgage Backed Securities or the Bank of North Dakota money market and demand accounts. The FY2014 Non-operating Interest Income was consistent with the prior year decreasing only \$6. The decrease in FY2013 interest earnings was due to a significant decrease in the fair market value compared to the slight increase in fair market value the previous fiscal year.

Outlook

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

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

NDHFA has recently expanded their ROOTS program allowing a larger number of families to enjoy the benefits of North Dakota Housing Finance Agency's affordable rates.

Budgetary Information

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

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Contacting the North Dakota Housing Finance Agency's Financial Management

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

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013
(In Thousands)

	2014	Restated 2013
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 7,838	\$ 4,402
Due from State Agencies	26	52
Receivables		
Interest		
Loans	20	41
Investments	122	131
Due from HUD	145	110
Other	488	583
Current portion of service release premium	413	426
Prepaid expenses	56	59
Total unrestricted current assets	9,108	5,804
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	167,732	161,121
Receivables		
Current portion of loans receivable	15,774	16,727
Interest		
Loans	2,414	2,643
Investments	8	75
Other	33	34
Total restricted current assets	185,961	180,600
Total current assets	195,069	186,404
NONCURRENT ASSETS - UNRESTRICTED		
Investments	-	2,505
Service release premium, net	2,524	2,668
Equipment, net	1	20
Total unrestricted noncurrent assets	2,525	5,193
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	613,485	662,638
Investments	12,063	13,127
Total restricted noncurrent assets	625,548	675,765
Total noncurrent assets	628,073	680,958
Total assets	823,142	867,362
DEFERRED OUTFLOW OF RESOURCES		
Financial derivative instrument	10,653	12,866

	<u>2014</u>	<u>Restated 2013</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	\$ 56	\$ 8
Due to state agencies	16	22
Other	899	852
Current portion of compensated absences	174	173
Current portion of bonds payable	42,395	11,450
Loan from Bank of North Dakota	-	8,653
Accrued interest	9,817	12,484
Funds held in trust	10,195	11,005
Grant funds received in advance	41	-
Total current liabilities	<u>63,593</u>	<u>44,647</u>
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	106	90
Rebate due to IRS, net of current portion	74	80
Revolving loan fund received in advance	4,373	2,485
Financial derivative instrument	10,653	12,866
Bonds payable, net of current portion	<u>611,564</u>	<u>684,468</u>
Total noncurrent liabilities	<u>626,770</u>	<u>699,989</u>
Total liabilities	<u>690,363</u>	<u>744,636</u>
NET POSITION		
Net investment in capital assets	1	20
Restricted for debt service	131,330	118,340
Unrestricted	<u>12,101</u>	<u>17,232</u>
Total net position	<u>\$ 143,432</u>	<u>\$ 135,592</u>

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In Thousands)

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUES		
Mortgage interest income	\$ 30,064	\$ 34,468
Investment income	2,463	3,212
Gain on sale of investments	529	2,830
Fee income	3,148	2,294
Total revenues	<u>36,204</u>	<u>42,804</u>
OPERATING EXPENSES		
Interest expense	19,695	25,960
Agency grants	1,530	1,464
Administrative and operating expenses	4,339	4,705
Salaries and benefits	3,114	3,102
Depreciation	19	19
Total expenses	<u>28,697</u>	<u>35,250</u>
OPERATING INCOME	<u>7,507</u>	<u>7,554</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	11,825	11,287
Miscellaneous revenue	44	-
Settlement funds	-	1,000
Investment income	286	292
Federal grants	(12,207)	(11,877)
Total nonoperating revenues (expenses)	<u>(52)</u>	<u>702</u>
INCOME BEFORE TRANSFERS	<u>7,455</u>	<u>8,256</u>
TRANSFERS		
Transfers in from Dept. of Commerce	415	628
Transfers out to Industrial Commission	(30)	(28)
CHANGE IN NET POSITION	<u>7,840</u>	<u>8,856</u>
TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	<u>135,592</u>	<u>133,030</u>
GASB 65 ADJUSTMENT	<u>-</u>	<u>(6,294)</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>135,592</u>	<u>126,736</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 143,432</u>	<u>\$ 135,592</u>

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In Thousands)

	2014	Restated 2013
OPERATING ACTIVITIES		
Receipts from customers	\$ 177,012	\$ 235,007
Proceeds from sale of loans receivable	33,164	92,845
Interfund mortgages loan purchases and sales	40,810	41,313
Grant funds received in advance	1,927	485
Payment of grants	(1,518)	(1,529)
Payments to service providers		
State agencies	(250)	(361)
Mortgage loan purchases	(165,084)	(147,438)
Other	(5,802)	(5,383)
Payments to employees	(3,109)	(3,101)
Net cash provided (used) by operating activities	77,150	211,838
NONCAPITAL FINANCING ACTIVITIES		
Principal payments on loan from Bank of North Dakota	(68,004)	(121,406)
Principal payments on bonds payable	(189,830)	(209,045)
Proceeds from loan borrowings from Bank of North Dakota	59,350	95,258
Proceeds from bond issuance	149,798	65,910
Interest paid on loans and bonds	(22,360)	(29,902)
Change in LEPP funds	44	1,000
Proceeds from federal grants	11,825	11,287
Payment of federal grants	(12,206)	(11,877)
Transfers from Department of Commerce	415	628
Change in interfund transfers	32	-
Transfers to Industrial Commission	(30)	(28)
Net cash provided (used) for noncapital financing activities	(70,966)	(198,175)
INVESTING ACTIVITIES		
Purchase of investments	(32,740)	(92,845)
Proceeds from sale of investments	35,658	89,585
Interest received from investments	945	976
Net cash provided by for investing activities	3,863	(2,284)
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,047	11,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	165,523	154,144
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 175,570	\$ 165,523
CASH AND CASH EQUIVALENTS - UNRESTRICTED	\$ 7,838	\$ 4,402
CASH AND CASH EQUIVALENTS - RESTRICTED	167,732	161,121
	\$ 175,570	\$ 165,523

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In Thousands)

	2014	Restated 2013
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 7,507	\$ 7,554
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	19	19
Amortization		
Original issue discounts and premiums	(1,927)	(1,663)
Service release premium	842	1,109
Reclassification of interest income/expense to other activities	19,758	26,248
Changes in assets and liabilities:		
Decrease in due from HUD	(35)	3
(Increase) decrease in due from State Agencies	27	111
(Increase) decrease in other receivables	95	101
(Increase) decrease in service release premium	(683)	(760)
(Increase) decrease in prepaid expenses	7	(29)
(Increase) decrease in loan interest receivable	250	835
(Increase) decrease in loans receivable	50,072	176,855
Increase (decrease) in due to HUD	48	(68)
Increase in due to State Agencies	(6)	(36)
Decrease in rebate due to IRS	(6)	(8)
Increase (decrease) in other liabilities	49	(95)
Increase in compensated absences	17	5
Increase funds held in trust	(811)	1,172
Increase (decrease) revolving loan fund received in advance	1,888	185
Increase (decrease) grant funds received in advance	39	300
	\$ 77,150	\$ 211,838
Net cash provided (used) by operating activities		
Non-cash disclosures:		
Increase (decrease) in fair value of investments	\$ (652)	\$ (693)

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENT OF APPROPRIATIONS
BIENNIUM ENDED JUNE 30, 2014
(In Thousands)

	2013-2015 Appropriations Original	2013-2015 Appropriations As Adjusted	2014-2015 Expenditures	Unexpended Appropriations
Administrative Expenses:				
Salaries, wages and benefits	\$ 7,583	\$ 7,583	\$ 3,114	\$ 4,469
Operating expenses	3,792	3,792	1,501	2,291
Grants, benefits and claims	31,033	31,033	15,663	15,370
HIF Transfer	15,400	15,400	15,400	-
Contingency	100	100	-	100
	<u>100</u>	<u>100</u>	<u>-</u>	<u>100</u>
Total	<u>\$ 57,908</u>	<u>\$ 57,908</u>	<u>\$ 35,678</u>	<u>\$ 22,230</u>

- (1) The Agency's total appropriations of \$57,908 consist of funding of \$26,178 from federal funds, \$15,400 from general funds and \$16,330 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 4 of SB 2014. As of June 30, 2014, the Agency has not used any of the continuing appropriations for grants that were not included in the original appropriations.
- (2) This statement includes only those expenditures for which there are appropriations. A reconciliation to the expenses on the statement of revenues, expenses and changes in fund net position follows (in thousands):

	2014
Total expenditures	\$ 35,678
Less: Grants, benefits and claims	(15,663)
Less: HIF Transfer	(15,400)
Administrative and operating expenses relating to	
Rental, Homeownership Bonds and Agency expenses	2,101
Amortization of service release premium	841
Interest expense for the Agency	(104)
Depreciation	19
	<u>19</u>
Total administrative and operation expenses, salaries and benefits, and depreciation	<u>\$ 7,472</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(In Thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

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

The Agency is authorized to issue bonds and notes in order to exercise its authorized powers. Bonds and notes issued by the Agency under the 1994 and 2009 General Resolutions are not a debt or liability of the State of North Dakota and the state is not liable for repayment of such obligations. Bonds under the 1994 and 2009 General Resolutions are general obligations of the Agency.

Reporting Entity

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

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

Budgetary Process

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

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Accounting Standards

The Agency follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities.

Fund Accounting

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

The Agency's funds are:

Agency Operating Funds

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

Homeownership Bond Funds

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

Basis of Accounting and Measurement Focus

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

Use of Estimates

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Investments

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

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

Accumulated Unpaid Vacation and Sick Pay

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

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

Interfund Receivables and Payables

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Mortgage Loans Receivable

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

Service Release Premium

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

Equipment

Equipment and furnishings are stated at cost, net of accumulated depreciation. Equipment and furnishings with a cost of \$5,000 or more per unit are capitalized and reported in the accompanying financial statements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to five years.

Funds Held in Trust

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

Rebate Due to IRS

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

Financial Derivative Instrument

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

Operating and Non-operating Revenues

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

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

Implementation of New Accounting Principles

The Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended June 30, 2014. GASB Statement No. 65 established standards for accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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, 2014 and 2013 were \$18,691 and \$16,762, 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, 2014 and 2013 were \$18,979 and \$16,520, respectively.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

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, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 7,838	\$ 4,402
Total cash and cash equivalents	<u>\$ 7,838</u>	<u>\$ 4,402</u>
Restricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 11,141	\$ 12,118
Deposits at Wells Fargo	642	229
Cash and cash equivalents held in trust	85,022	38,153
Fixed rate investment agreements reported as cash equivalents	<u>70,927</u>	<u>110,621</u>
Total cash and cash equivalents	<u>\$ 167,732</u>	<u>\$ 161,121</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The following shows the investments by investment type, amount and the duration at June 30, 2014:

	<u>Total Market Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>More Than 10 Years</u>
Federal National Mortgage Association Agency Bond	\$ 4,793	\$ -	\$ 4,793	\$ -	\$ -
US Treasury Bonds	5,816	-	5,816	-	-
Mortgage Backed Securities	<u>1,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,454</u>
Total Debt Securities	<u>\$ 12,063</u>	<u>\$ -</u>	<u>\$ 10,609</u>	<u>\$ -</u>	<u>\$ 1,454</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

The following shows the investments by investment type, amount and the duration at June 30, 2013:

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed rate investment agreements and the U.S. Treasury Bonds are not rated. The following represents the Agency's ratings as of June 30, 2014:

	<u>S&P Credit Rating AA+</u>	<u>Total Market Value</u>
Federal National Mortgage Association	<u>\$ 4,793</u>	\$ 4,793
U.S. Treasury Bonds		5,816
Mortgage Backed Securities		<u>1,454</u>
Total Debt Securities		<u>\$ 12,063</u>

the following represents the Agency's ratings as of June 30, 2013:

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

Agency Operating Fund investment securities with a carrying amount of approximately \$12,063 and \$15,632 at June 30, 2014 and 2013, were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

NOTE 4 LOANS RECEIVABLE

Loans receivable at June 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Restricted:		
Agency operating funds	\$ 6,299	\$ 15,416
Less: current portion	<u>156</u>	<u>1,319</u>
	<u>\$ 6,143</u>	<u>\$ 14,097</u>
Restricted:		
Homeownership bond funds	\$ 622,960	\$ 663,949
Less: current portion	<u>15,618</u>	<u>15,408</u>
	<u>\$ 607,342</u>	<u>\$ 648,541</u>

Mortgage loans are secured by first liens on real property.

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

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

Included in Homeownership and Agency mortgage loans are loans totaling \$237 which have been foreclosed on and are owned by the Agency (REO), \$56 in real estate loans in judgment (REJ), and 24 loans totaling \$1,814 were in the foreclosure process at June 30, 2014. At June 30, 2013, Homeownership and Agency mortgage loans included \$466 of REO loans, \$113 in real estate loans in judgment, and 24 loans totaling \$1,814 were in the foreclosure process. Since such loans are at least partially insured or guaranteed by outside parties, it is anticipated that the Agency will recover substantially all of the unpaid principal and interest on the loans through insurance payments or sale of foreclosed property.

NOTE 5 INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

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

	<u>2014</u>	<u>2013</u>
Due from HUD	<u>\$ 145</u>	<u>\$ 110</u>
Due to HUD	<u>\$ 56</u>	<u>\$ 8</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

NOTE 6 EQUIPMENT

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

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance June 30, 2012	\$ 197	\$ 158	<u>\$ 39</u>
Additions	<u>-</u>	<u>19</u>	
Balance June 30, 2013	197	177	<u>\$ 20</u>
Additions	<u>-</u>	<u>19</u>	
Balance June 30, 2014	<u>\$ 197</u>	<u>\$ 196</u>	<u>\$ 1</u>

NOTE 7 OTHER RECEIVABLES

A detail of other receivables is as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Receivable from developers	\$ 359	\$ 409
Accounts receivable	<u>129</u>	<u>174</u>
	<u>\$ 488</u>	<u>\$ 583</u>
Restricted		
Accounts receivable	<u>\$ 33</u>	<u>\$ 34</u>

NOTE 8 RELATED PARTY TRANSACTIONS

The Agency had the following transactions with related parties as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents - unrestricted		
Bank of North Dakota	<u>\$ 7,838</u>	<u>\$ 4,402</u>
Cash and cash equivalents - restricted		
Bank of North Dakota	<u>\$ 11,141</u>	<u>\$ 12,118</u>
Due from state agencies		
Department of Commerce	\$ 22	\$ 50
Housing Incentive Fund	<u>4</u>	<u>2</u>
	<u>\$ 26</u>	<u>\$ 52</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

	2014	2013
Due to state agencies		
Information Technology Department	\$ 6	\$ 6
Attorney General	5	2
Department of Transportation	2	1
Bank of North Dakota	-	4
North Dakota State Radio	2	1
North Dakota Tax Department	-	8
Office of Management and Budget	1	-
	\$ 16	\$ 22
Loans payable to the Bank of North Dakota	\$ -	\$ 8,653
Transfers in		
Department of Commerce	\$ 415	\$ 628
Transfers out		
Industrial Commission	\$ 30	\$ 28
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 110	\$ 304
Information Technology Department		
Telephone	24	26
Data processing	57	52
Attorney General		
Legal fees	36	16
Office of Management and Budget		
Supplies and conferences	16	11
Risk management premium	1	2
Indirect cost allocation	3	6
Department of Transportation		
Travel	14	13
North Dakota State Radio Communications		
NCIC access	8	5
Housing Incentive Fund		
Administration and support	31	154

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

NOTE 9 OTHER LIABILITIES

A detail of other liabilities is as follows:

	2014	2013
Remarketing fees	\$ 37	\$ 40
Commitment fees	176	212
Accounts payable	505	494
NIPB fee	7	8
Trustee fees	82	98
Other	92	-
	\$ 899	\$ 852

NOTE 10 COMPENSATED ABSENCES

A summary of compensated absences follows:

	2014	2013
Beginning balance, July 1	\$ 263	\$ 258
Additions	200	229
Reductions	(183)	(224)
	\$ 280	\$ 263
Amounts due within one year	\$ 174	\$ 173

NOTE 11 BONDS PAYABLE

Change in Bonds Payable

A summary of changes in bonds payable follows:

	Balance 2013	Additions	Reductions	Balance 2014	Amounts Due Within One Year
Homeownership bond funds, par	\$ 689,590	\$ 147,025	\$ 189,830	\$ 646,785	\$ 41,966
Premium on bond funds	6,328	2,773	1,927	7,174	429
Homeownership bond funds, net	\$ 695,918	\$ 149,798	\$ 191,757	\$ 653,959	\$ 42,395
	Balance 2012	Additions	Reductions	Balance 2013	Amounts Due Within One Year
Homeownership bond funds, par	\$ 834,125	\$ 64,510	\$ 209,045	\$ 689,590	\$ 11,046
Premium on bond funds	6,590	1,400	1,662	6,328	404
Homeownership bond funds, net	\$ 840,715	\$ 65,910	\$ 210,707	\$ 695,918	\$ 11,450

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

Bonds Payable

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

Maturities of Bonds Payable

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 42,395	\$ 21,261	\$ 63,656
2016	20,385	21,969	42,354
2017	15,580	21,462	37,042
2018	15,805	21,030	36,835
2019	15,235	20,567	35,802
2020-2024	86,135	94,090	180,225
2025-2029	98,080	78,166	176,246
2030-2034	122,980	56,115	179,095
2035-2039	151,555	28,559	180,114
2040-2044	77,120	5,503	82,623
2045-2049	1,515	22	1,537
Premiums	7,174	(7,174)	-
	<u>\$ 653,959</u>	<u>\$ 361,570</u>	<u>\$ 1,015,529</u>

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2014 and 2013. The term bonds of all bond series have mandatory sinking fund requirements. All of the bonds payable relate to the Agency's Homeownership Bond Fund.

	<u>Interest Rate</u>	<u>2014</u>	<u>2013</u>
Series 2004C			
PAC Term bond 1/1/35	Variable	\$ 10,710	\$ 16,670
Series 2005A			
Term bond 7/1/24	Variable	20,050	23,100
Term bond 1/1/36	Variable	-	4,425
Series 2005CD			
Serial bonds 7/1/06 - 7/1/16	3.05 - 4.45	-	2,775
Term bond 1/1/36	Variable	12,000	12,000

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

	Interest Rate	2014	2013
Series 2006A			
Term bond 1/1/37 (Premium)	5.5	\$ -	\$ 5,590
Term bond 7/1/37	Variable	27,625	30,165
Premium (discount)		752	1,022
Series 2007AB			
Serial bonds 7/1/08 - 7/1/17	3.7 - 4.45	2,985	3,885
Term bond 7/1/21	4.6	345	1,235
Term bond 7/1/26	4.7	540	1,930
Term bond 7/1/31	4.75	545	1,950
Term bond 1/1/37 (Premium)	5.5	12,570	16,380
Term bond 7/1/37	4.8	310	3,265
Premium (discount)		421	757
Series 2007CD			
Serial bonds 7/1/08 - 7/1/17	3.85 - 4.85	1,210	4,040
Term bond 7/1/22	5.2	-	2,670
Term bond 7/1/27	5.25	-	3,455
Term bond 1/1/38 (Premium)	5.75	10,525	14,250
Term bond 7/1/38	5.35	-	6,695
Premium (discount)		181	520
Serial bonds 7/1/09 - 7/1/18	2.6 - 4.9	-	495
Term bond 7/1/38 (Premium)	5.75	2,065	5,825
Term bond 1/1/39	Variable	13,155	13,700
Premium (discount)		371	513
Series 2008 B			
Term bond 07/1/2038	Variable	12,735	12,735
Series 2008 D			
Serial bonds 7/1/10 - 7/1/18	2.65 - 4.65	-	10,365
Term bond 7/1/23	5.15	-	5,870
Term bond 7/1/28	5.4	-	6,055
Term bond 7/1/33	5.55	-	4,225
Term bond 7/1/39	Variable	21,850	21,850
Series 2009 AB			
Serial bonds 1/1/10 - 7/1/19	.75 - 4.10	4,585	28,970
Term bond 1/1/30	Variable	47,745	47,745
Series 2009 CD			
Serial bonds 1/1/11 - 7/1/21	1.0 - 4.125	9,000	11,570
PAC Term Bond 1/1/2029 (Premium)	5.25	4,780	6,020
Term bond 1/1/41 (Premium)	4.44	5,350	7,420
Term bond 7/1/41	3.96	21,220	29,310
Term bond 7/1/26	4.75	245	3,200
Premium (discount)		317	465

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	Interest Rate	2014	2013
Series 2010 AB			
Serial bonds 7/1/11 - 7/1/21	.75 - 4.05	\$ 9,420	\$ 12,100
Term bond 7/1/26	4.45	200	3,490
PAC Term Bond 7/1/2028 (Premium)	5.0	5,680	7,070
Term bond 7/1/41	3.96	30,850	39,860
Premium (discount)		245	344
Series 2010 CD			
Serial bonds 7/1/12 - 7/1/20	.90 - 3.40	3,800	4,735
Term bond 7/1/26	4.125	1,795	3,605
Term bond 1/1/29 (Premium)	4.50	3,510	4,405
Term bond 7/1/41	3.16	17,630	21,300
Premium (discount)		178	236
Series 2010 EF			
Serial bonds 7/1/11 - 7/1/20	.60 - 3.45	9,260	10,475
Term bond 7/1/25	4.375	3,245	4,590
Term bond 7/1/30	4.75	4,105	5,815
Term bond 7/1/240	5.05	5,440	10,280
PAC Term Bond 7/1/2041 (Premium)	4.5	7,355	8,755
PAC Term Bond 1/1/2035 (Premium)	4.5	9,150	11,475
Premium (discount)		472	663
Series 2011 AB			
Serial bonds 7/1/12 - 7/1/22	.35 - 4.0	17,050	19,435
Term bond 1/1/25	4.45	565	3,425
Term bond 1/1/28 (Premium)	4.5	6,555	7,640
Term bond 1/1/31	3.96	7,580	8,950
Term bond 7/1/41	3.96	33,420	39,580
Premium (discount)		357	450
Series 2011 CD			
Serial bonds 1/1/13 - 7/1/22	.85 - 3.7	6,100	6,970
Term bond 1/1/26	4.125	2,005	2,600
Term bond 1/1/28 (Premium)	4.25	2,320	2,700
Term bond 7/1/41	3.96	17,040	18,880
Premium (discount)		64	75
Series 2012 AB			
Serial bonds 7/1/13 - 7/1/21	0.6 - 3.05	13,200	14,510
Serial bonds 7/1/21 - 7/1/24	2.75 - 3.05	6,165	6,165
Term bond 7/1/27	3.35	5,315	6,125
Term bond 7/1/32	3.6	9,160	11,130
Term bond 7/1/34	3.75	3,815	4,640
Term bond 7/1/42 (Premium)	3.75	17,670	19,050
Premium (discount)		1,103	1,283

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	Interest Rate	2014	2013
Series 2013 A			
Serial bonds 7/1/14 - 7/1/23	.45 - 3.8	\$ 13,530	\$ -
Term bond 7/1/28	4.65	9,745	-
Term bond 7/1/33	5.0	12,070	-
Term bond 1/1/38	5.15	11,555	-
Term bond 7/1/43 (Premium)	3.5	21,285	-
Premium (discount)		822	-
Series 2014 AB			
Serial bonds 1/1/15 - 7/1/25	.2 - 3.15	23,230	-
Term bond 7/1/27	3.45	5,280	-
Term bond 7/1/34 (Premium)	4.0	21,490	-
Term bond 7/1/44	Variable	27,055	-
Premium (discount)		1,891	-
		<u>\$ 653,959</u>	<u>\$ 695,918</u>

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

Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of \$653,959 maturing at various times from January 1, 2014 through July 1, 2042. The bonds have been issued to provide financing to purchase mortgage loans. Annual principal and interest payments on the bonds are expected to require 98 percent of net revenues. Principal and interest paid for the current year and total customer net revenues were \$189,830 and \$22,360, respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues.

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NOTE 12 FINANCIAL DERIVATIVE INSTRUMENT

Objective of the Interest Rate Swap

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance², the agency entered into several cash flow hedges or swaps in connection with various variable-rate housing bond series¹. All Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate⁶. The Agency also has cash flow hedges that were entered into in connection with variable-rate housing bond series that no longer have bonds outstanding as those bonds have been called. The cash flow hedges that are not connected to a specific bond series hedge the risk related to the Agency's other variable-rate housing bonds that are un-hedged.

Terms

The bonds and the related swap agreements have a stated issuance² and maturity date³. Some of the swaps have optional termination dates¹⁵. Under the swaps, the Agency pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR)⁷ plus a fixed percentage⁸ on the swap notional amount⁴. On the other hand, the bond's variable-rate⁹ coupons are determined by the remarketing agent. If for any reason the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA (Bond Market Association) Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution. The net change in fair value of the individual swaps is presented in the terms table below¹⁴.

Credit Risk

As of June 30, 2014 and 2013, the Agency did not have any swaps that had a positive fair value. Of the swaps with negative fair value, the agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on the bonds. The swap counterparty has guaranteed all payments and is rated AAa/AA+/AAA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into Credit Support Agreements with Bank of New York Mellon and the Royal Bank of Canada as a credit enhancement.

The Agency has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparties. Under the terms of these arrangements netting provisions permit each party to net the transactions' fair values so that a single sum will be owed by, or owed to, the other party. At June 30, 2014 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$2,279 and the swap providers owed the Agency a variable rate on the notional amounts of \$152 making the net payment that the Agency owe the swap providers \$2,127.

Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value¹⁰ of \$10,653 and \$12,866 as of June 30, 2014 and 2013. 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, 2014 and 2013. The coupon on the government's

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variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

Basis Risk

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate⁶ and the synthetic rate¹² as of June 30, 2014 and 2013. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

Termination Risk

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

Rollover Risk

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

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The terms of the interest rate swaps at June 30, 2014 are as follows:

1	Bond Series	2004 C	2005 C	2006 A	2008 A
2	Issuance Date	6/10/2004	9/21/2005	5/4/2006	2/26/2008
3	Maturity Date	1/1/2035	1/1/2036	7/1/2016	1/1/2017
4	Notional Amount	330	12,000	30,210	13,700
5	Variable-rate Bonds	410	12,000	27,625	13,155
6	Fixed Rate	4.095%	3.889%	3.955%	3.198%
7	LIBOR Percentage	63.00%	63.00%	63.00%	63.00%
8	Additional Percentage	0.34%	0.31%	0.31%	0.32%
9	Bonds Variable-rate	0.07000%	0.08000%	0.09000%	0.07000%
10	Fair Value	(6)	(809)	(2,532)	(1,015)
11	Percentage of LIBOR	0.34000%	0.31000%	0.31000%	0.32000%
12	Synthetic Rate	3.82500%	3.65900%	3.73500%	2.94800%
13	Actual Synthetic Rate	4.06997%	3.74422%	3.79984%	2.98958%
14	Change in Fair Value	32	248	862	262
15	Optional Termination Date	N/A	1/1/2016	N/A	N/A
1	Bond Series	2008 B	2008 D	2009 B	2014 B
2	Issuance Date	2/26/2008	8/5/2008	7/30/2009	6/24/2014
3	Maturity Date	7/1/2038	7/1/2039	1/1/2025	7/1/2044
4	Notional Amount	9,235	21,850	37,095	27,055
5	Variable-rate Bonds	12,735	21,850	47,745	27,055
6	Fixed Rate	4.725%	3.919%	3.108%	2.890%
7	LIBOR Percentage	100.00%	63.70%	64.70%	65.80%
8	Additional Percentage	0.00%	0.20%	0.23%	0.17%
9	Bonds Variable-rate	0.11000%	0.07000%	0.07000%	0.09000%
10	Fair Value	(1,239)	(2,454)	(2,187)	(411)
11	Percentage of LIBOR	0.00000%	0.20000%	0.23000%	0.17000%
12	Synthetic Rate	4.83500%	3.78900%	2.94800%	2.81000%
13	Actual Synthetic Rate	5.03533%	3.75598%	2.85758%	N/A
14	Change in Fair Value	207	322	(1,058)	411
15	Optional Termination Date	1/1/2020	1/1/2018	7/1/2016	N/A

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

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

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Swap Payments and Associated Debt

Using rates as of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments are as follows. Interest calculations were based on rates as of June 30, 2014. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2015	\$ 2,350	\$ 130	\$ 4,877	\$ 7,357
2016	3,410	127	4,759	8,296
2017	43,650	95	3,360	47,105
2018	2,360	89	3,077	5,526
2019	1,865	87	3,008	4,960
2020 - 2024	25,545	382	12,858	38,785
2025 - 2029	17,105	285	10,420	27,810
2030 - 2034	10,710	254	9,246	20,210
2035 - 2039	36,605	154	5,146	41,905
2040 - 2044	17,460	35	1,047	18,542
2045 - 2049	1,515	-	-	1,515
	<u>\$ 162,575</u>	<u>\$ 1,638</u>	<u>\$ 57,798</u>	<u>\$ 222,011</u>

NOTE 13 LOAN FROM BANK OF NORTH DAKOTA

The following is a summary of changes in loan from the Bank of North Dakota for the years ended June 30, 2014 and 2013:

Balance June 30, 2012	\$ 34,801
Principal payments on advance from Bank of North Dakota	(121,406)
Loan advance from Bank of North Dakota	<u>95,258</u>
Balance June 30, 2013	8,653
Principal payments on advance from Bank of North Dakota	(68,003)
Loan advance from Bank of North Dakota	<u>59,350</u>
Balance June 30, 2014	<u>\$ -</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2014, 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, 2015. The line of credit bears interest at 1% over the 90 day LIBOR index with a minimum interest rate of 1.75%.

NOTE 14 PENSION PLAN

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

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

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

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

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% 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' 5% share. Effective January 1, 2013, the employee's share was increased by 1% to 6%. Effective January 1, 2014, the employee's share was increased by 1% to 7%. The additional 1% is withheld from the employees wage as a pre-tax deduction. In addition, the North Dakota Housing Finance Agency makes a 5.12% employer contribution and the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. Effective January 1, 2013, the North Dakota Housing Finance Agency is required to contribute 6.12% of each participant's salary as the employer's share. Effective January 1, 2014, the North Dakota Housing Finance Agency is required to contribute 7.12% of each participant's salary as the employer's share. The prefunded retiree health insurance contribution remained at 1.14%. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of the NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The North Dakota Housing Finance Agency's required and actual contributions to NDPERS for the fiscal years ending June 30, 2014, 2013, and 2012 were \$260, \$269, and \$215.

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

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NOTE 15 COMMITMENTS AND CONTINGENCIES

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

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

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

	2014	2013
Commitments to extend credit	\$ 24,162	\$ 44,089
Loan Acquisition Fund	\$ 38,769	\$ 91

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

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

Of the \$24,162 and \$44,089 commitments to extend credit as of June 30, 2014 and 2013, \$0 and \$22,815 would qualify for Ginnie Mae securitization. None of the \$24,162 commitments to extend credit as of June 30, 2014 are expected to be financed through Ginnie Mae securitization. Of the \$44,089 commitments to extend credit as of June 30, 2013, \$22,815 would qualify for Ginnie Mae securitization.

As of June 30, 2014 and 2013, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$85 and \$400, respectively.

NOTE 16 REBATE DUE TO IRS

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

	2014	2013
Series 07 AB	\$ 75	\$ 80

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A summary of the rebate due to IRS follows:

	2014	2013
Beginning balance, July 1	\$ 80	\$ 88
Additions	-	-
Reductions	(5)	(8)
Ending balance, June 30	\$ 75	\$ 80
Amounts due within one year	\$ -	\$ -

NOTE 17 FUND NET POSITION

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

The Agency operating fund has investment securities pledged under the 1994 and 2009 General Bond Resolutions. As a result, the Agency operating fund has restricted net position for this amount. All Agency net position is a reserved general obligation of the bond series. The general obligation (issuer) rating by Moody's Investor Service (a national financial rating service) is influenced by the relationship of Agency net position to several other financial statement factors and major investors monitor the amount of net position as additional collateral for the publicly traded bond investments.

NOTE 18 RISK MANAGEMENT

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

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

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

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

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

NOTE 19 OPERATING LEASES

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

<u>Year ending June 30</u>	
2015	\$ 225
2016	224
2017	213
2018	213
2019	<u>213</u>
	<u>\$ 1,088</u>

Total rental expense was \$225 for the years ended June 30, 2014 and 2013.

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NOTE 20 SEGMENT INFORMATION

The Agency maintains two Enterprise Funds which provide loans to finance construction of residential housing and single family homeownership. Segment information as of and for the year ended June 30, 2014, was as follows:

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Balance Sheet				
Current assets - other	\$ 20,059	\$ 177,053	\$ (2,043)	\$ 195,069
Capital assets - net	1	-	-	1
Noncurrent assets - other	8,667	619,405	-	628,072
Total assets	<u>28,727</u>	<u>796,458</u>	<u>(2,043)</u>	<u>823,142</u>
Deferred outflow of resources	-	10,653	-	10,653
Current liabilities - other	12,146	53,490	(2,043)	63,593
Noncurrent liabilities - other	4,479	622,291	-	626,770
Total liabilities	<u>16,625</u>	<u>675,781</u>	<u>(2,043)</u>	<u>690,363</u>
Invested in capital assets	1	-	-	1
Net position - unrestricted	12,101	-	-	12,101
Net position - restricted	-	131,330	-	131,330
Total net position	<u>\$ 12,102</u>	<u>\$ 131,330</u>	<u>\$ -</u>	<u>\$ 143,432</u>
Statement of Revenues, Expenses and Change in Fund Net Position				
Operating revenues				
Mortgage interest income	\$ 692	\$ 29,372	\$ -	\$ 30,064
Investment income	-	2,463	-	2,463
Gain on sale of investments	539	(10)	-	529
Fee income	6,892	-	(3,744)	3,148
Depreciation	(19)	-	-	(19)
Other operating expenses	(7,613)	(24,809)	3,744	(28,678)
Operating income	<u>491</u>	<u>7,016</u>	<u>-</u>	<u>7,507</u>
Nonoperating revenues (expenses)				
Federal grants	11,825	-	-	11,825
Settlement funds	44	-	-	44
Investment income	286	-	-	286
Federal grants	(12,207)	-	-	(12,207)
Transfers	385	-	-	385
Change in net position	<u>824</u>	<u>7,016</u>	<u>-</u>	<u>7,840</u>
Total net position, beginning of year	17,254	118,338	-	135,592
Equity transfer in (out)	<u>(5,976)</u>	<u>5,976</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 12,102</u>	<u>\$ 131,330</u>	<u>\$ -</u>	<u>\$ 143,432</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

	Agency Operating Funds	ownership Bond Funds	Eliminations	Total Enterprise
Statement of Cash Flows				
Net cash from operating activities	\$ 10,853	\$ 66,297	\$ -	\$ 77,150
Net cash used for noncapital financing activities	(11,650)	(59,316)	-	(70,966)
Net cash from investing activities	3,863	-	-	3,863
Change in cash and cash equivalents	3,066	6,981	-	10,047
Cash and cash equivalents, beginning of year	15,407	150,116	-	165,523
Cash and cash equivalents, end of year	<u>\$ 18,473</u>	<u>\$ 157,097</u>	<u>\$ -</u>	<u>\$ 175,570</u>

Segment information as of and for the year ended June 30, 2013, restated:

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Balance Sheet				
Current assets - other	\$ 21,935	\$ 169,831	\$ (5,362)	\$ 186,404
Capital assets - net	20	-	-	20
Noncurrent assets - other	19,270	661,668	-	680,938
Total assets	<u>41,225</u>	<u>831,499</u>	<u>(5,362)</u>	<u>867,362</u>
Deferred outflow of resources	-	12,866	-	12,866
Current liabilities - other	21,398	28,611	(5,362)	44,647
Noncurrent liabilities - other	2,575	697,414	-	699,989
Total liabilities	<u>23,973</u>	<u>726,025</u>	<u>(5,362)</u>	<u>744,636</u>
Invested in capital assets	20	-	-	20
Net position - unrestricted	17,232	-	-	17,232
Net position - restricted	-	118,340	-	118,340
Total net position	<u>\$ 17,252</u>	<u>\$ 118,340</u>	<u>\$ -</u>	<u>\$ 135,592</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Statement of Revenues, Expenses and Change in Fund Net Position				
Operating revenues				
Mortgage interest income	\$ 842	\$ 33,626	\$ -	34,468
Investment income	-	3,212	-	3,212
Gain on sale of investments	2,830	-	-	2,830
Fee income	6,424	-	(4,130)	2,294
Depreciation	(19)	-	-	(19)
Other operating expenses	(8,032)	(31,329)	4,130	(35,231)
Operating income	<u>2,045</u>	<u>5,509</u>	<u>-</u>	<u>7,554</u>
Nonoperating revenues (expenses)				
Federal grants	11,287	-	-	11,287
Settlement funds	1,000	-	-	1,000
Investment income	292	-	-	292
Federal grants	(11,877)	-	-	(11,877)
Transfers	600	-	-	600
Change in net position	<u>3,347</u>	<u>5,509</u>	<u>-</u>	<u>8,856</u>
Total net position, beginning of year	13,810	112,926	-	126,736
Equity transfer in (out)	95	(95)	-	-
Total net position, end of year	<u>\$ 19,297</u>	<u>\$ 118,340</u>	<u>\$ -</u>	<u>\$ 137,637</u>
	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Statement of Cash Flows				
Net cash from operating activities	\$ 28,459	\$ 183,388	\$ (9)	211,838
Net cash used for noncapital financing activities	(26,053)	(172,131)	9	(198,175)
Net cash used for capital and related financing activities	(2,284)	-	-	(2,284)
Change in cash and cash equivalents	122	11,257	-	11,379
Cash and cash equivalents, beginning of year	<u>15,285</u>	<u>138,859</u>	<u>-</u>	<u>154,144</u>
Cash and cash equivalents, end of year	<u>\$ 15,407</u>	<u>\$ 150,116</u>	<u>\$ -</u>	<u>\$ 165,523</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

NOTE 21 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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

NOTE 22 GASB 65 AJDUSTMENT

The Agency adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities* which required a restatement of the 2013 financials and a prior period adjustment to write off the bond issuance costs that were previously being amortized over the life of the bonds as of July 1, 2013; the cumulative effect of implementing this GASB statement was a decrease in deferred bond financing costs of \$5,045 on the Statement of Net Position, a decrease in expenditures of \$1,907 for 2013 amortization of deferred bond financing costs, and increase in expenditures of \$658 for bond issues costs incurred in fiscal year 2013, resulting in a net change of \$6,294 on the Statement of Revenues, Expenses and Changes in Net Position.

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
ASSETS								
CURRENT ASSETS - UNRESTRICTED								
Cash and cash equivalents	\$ 7,838	\$ -	\$ -	\$ -	\$ 7,838	\$ -	\$ 7,838	\$ 4,402
Due from State Agencies	26	-	-	-	26	-	26	52
Receivables								
Interest								
Loans	20	-	-	-	20	-	20	41
Investments	122	-	-	-	122	-	122	131
Due from HUD	145	-	-	-	145	-	145	110
Other	662	-	-	-	662	(174)	488	583
Current portion of service release premium	413	-	-	-	413	-	413	426
Prepaid expenses	42	14	-	14	56	-	56	59
Total unrestricted current assets	<u>9,268</u>	<u>14</u>	<u>-</u>	<u>14</u>	<u>9,282</u>	<u>(174)</u>	<u>9,108</u>	<u>5,804</u>
CURRENT ASSETS - RESTRICTED								
Cash and cash equivalents	10,635	130,274	26,823	157,097	167,732	-	167,732	161,121
Receivables								
Current portion of loans receivable	156	11,963	3,655	15,618	15,774	-	15,774	16,727
Interest								
Loans	-	1,751	663	2,414	2,414	-	2,414	2,643
Investments	-	6	2	8	8	-	8	75
Other	-	1,297	605	1,902	1,902	(1,869)	33	34
Total restricted current assets	<u>10,791</u>	<u>145,291</u>	<u>31,748</u>	<u>177,039</u>	<u>187,830</u>	<u>(1,869)</u>	<u>185,961</u>	<u>180,600</u>
Total current assets	<u>20,059</u>	<u>145,305</u>	<u>31,748</u>	<u>177,053</u>	<u>197,112</u>	<u>(2,043)</u>	<u>195,069</u>	<u>186,404</u>
NONCURRENT ASSETS - UNRESTRICTED								
Investments	-	-	-	-	-	-	-	2,505
Service release premium	2,524	-	-	-	2,524	-	2,524	2,668
Equipment, net	1	-	-	-	1	-	1	20
Total unrestricted noncurrent assets	<u>2,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,525</u>	<u>-</u>	<u>2,525</u>	<u>5,193</u>
NONCURRENT ASSETS - RESTRICTED								
Loans receivable, net of current portion	6,143	416,273	191,069	607,342	613,485	-	613,485	662,638
Investments	-	12,063	-	12,063	12,063	-	12,063	13,127
Total restricted noncurrent assets	<u>6,143</u>	<u>428,336</u>	<u>191,069</u>	<u>619,405</u>	<u>625,548</u>	<u>-</u>	<u>625,548</u>	<u>675,765</u>
Total noncurrent assets	<u>8,668</u>	<u>428,336</u>	<u>191,069</u>	<u>619,405</u>	<u>628,073</u>	<u>-</u>	<u>628,073</u>	<u>680,958</u>
Total assets	<u>28,727</u>	<u>573,641</u>	<u>222,817</u>	<u>796,458</u>	<u>825,185</u>	<u>(2,043)</u>	<u>823,142</u>	<u>867,362</u>
DEFERRED OUTFLOW OF RESOURCES								
Financial derivative instrument	-	10,653	-	10,653	10,653	-	10,653	12,866

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2014 AND 2013
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
LIABILITIES								
CURRENT LIABILITIES								
Due to HUD	\$ 56	\$ -	\$ -	\$ -	\$ 56	\$ -	\$ 56	\$ 8
Due to State Agencies	16	-	-	-	16	-	16	22
Other	1,664	1,242	36	1,278	2,942	(2,043)	899	852
Current portion of compensated absences	174	-	-	-	174	-	174	173
Current portion of bonds payable	-	36,880	5,515	42,395	42,395	-	42,395	11,450
Loan from Bank of North Dakota	-	-	-	-	-	-	-	8,653
Accrued interest	-	6,124	3,693	9,817	9,817	-	9,817	12,484
Funds held in trust	10,195	-	-	-	10,195	-	10,195	11,005
Grant funds received in advance	41	-	-	-	41	-	41	-
Total current liabilities	<u>12,146</u>	<u>44,246</u>	<u>9,244</u>	<u>53,490</u>	<u>65,636</u>	<u>(2,043)</u>	<u>63,593</u>	<u>44,647</u>
NONCURRENT LIABILITIES								
Compensated absences, net of current portion	106	-	-	-	106	-	106	90
Rebate due to IRS, net of current portion	-	74	-	74	74	-	74	80
Revolving loan fund received in advance	4,373	-	-	-	4,373	-	4,373	2,485
Financial derivative instrument	-	10,653	-	10,653	10,653	-	10,653	12,866
Bonds payable, net of current portion	-	409,803	201,761	611,564	611,564	-	611,564	684,468
Total noncurrent liabilities	<u>4,479</u>	<u>420,530</u>	<u>201,761</u>	<u>622,291</u>	<u>626,770</u>	<u>-</u>	<u>626,770</u>	<u>699,989</u>
Total liabilities	<u>16,625</u>	<u>464,776</u>	<u>211,005</u>	<u>675,781</u>	<u>692,406</u>	<u>(2,043)</u>	<u>690,363</u>	<u>744,636</u>
NET POSITION								
Invested in capital assets	1	-	-	-	1	-	1	20
Restricted for debt service	-	119,518	11,812	131,330	131,330	-	131,330	118,340
Unrestricted	12,101	-	-	-	12,101	-	12,101	17,232
Total net position	<u>\$ 12,102</u>	<u>\$ 119,518</u>	<u>\$ 11,812</u>	<u>\$ 131,330</u>	<u>\$ 143,432</u>	<u>\$ -</u>	<u>\$ 143,432</u>	<u>\$ 135,592</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
OPERATING REVENUES								
Mortgage interest income	\$ 692	\$ 20,905	\$ 8,467	\$ 29,372	\$ 30,064	\$ -	\$ 30,064	\$ 34,468
Investment income	-	1,834	629	2,463	2,463	-	2,463	3,212
Gain on sale of investments	539	(10)	-	(10)	529	-	529	2,830
Fee income	6,892	-	-	-	6,892	(3,744)	3,148	2,294
Total revenues	<u>8,123</u>	<u>22,729</u>	<u>9,096</u>	<u>31,825</u>	<u>39,948</u>	<u>(3,744)</u>	<u>36,204</u>	<u>42,804</u>
OPERATING EXPENSES								
Interest expense	106	11,968	7,621	19,589	19,695	-	19,695	25,960
Agency grants	1,530	-	-	-	1,530	-	1,530	1,464
Administrative and operating expenses	2,863	4,233	987	5,220	8,083	(3,744)	4,339	4,705
Salaries and benefits	3,114	-	-	-	3,114	-	3,114	3,102
Depreciation	19	-	-	-	19	-	19	19
Total expenses	<u>7,632</u>	<u>16,201</u>	<u>8,608</u>	<u>24,809</u>	<u>32,441</u>	<u>(3,744)</u>	<u>28,697</u>	<u>35,250</u>
OPERATING INCOME	<u>491</u>	<u>6,528</u>	<u>488</u>	<u>7,016</u>	<u>7,507</u>	<u>-</u>	<u>7,507</u>	<u>7,554</u>
NONOPERATING REVENUE (EXPENSES)								
Federal grants	11,825	-	-	-	11,825	-	11,825	11,287
Miscellaneous revenue	44	-	-	-	44	-	44	-
Settlement grants	-	-	-	-	-	-	-	1,000
Investment income	286	-	-	-	286	-	286	292
Federal grants	(12,207)	-	-	-	(12,207)	-	(12,207)	(11,877)
Total nonoperating revenues (expenses)	<u>(52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52)</u>	<u>-</u>	<u>(52)</u>	<u>702</u>
CHANGE IN ASSETS BEFORE TRANSFERS	<u>439</u>	<u>6,528</u>	<u>488</u>	<u>7,016</u>	<u>7,455</u>	<u>-</u>	<u>7,455</u>	<u>8,256</u>
TRANSFERS								
Transfer in from Department of Commerce	415	-	-	-	415	-	415	628
Transfer to Industrial Commission	(30)	-	-	-	(30)	-	(30)	(28)
CHANGE IN NET POSITION	<u>824</u>	<u>6,528</u>	<u>488</u>	<u>7,016</u>	<u>7,840</u>	<u>-</u>	<u>7,840</u>	<u>8,856</u>
TOTAL NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	<u>17,254</u>	<u>108,704</u>	<u>9,634</u>	<u>118,338</u>	<u>135,592</u>	<u>-</u>	<u>135,592</u>	<u>133,030</u>
GASB 65 ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,294)</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>17,254</u>	<u>108,704</u>	<u>9,634</u>	<u>118,338</u>	<u>135,592</u>	<u>-</u>	<u>135,592</u>	<u>126,736</u>
EQUITY TRANSFER IN (OUT)	<u>(5,976)</u>	<u>4,286</u>	<u>1,690</u>	<u>5,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 12,102</u>	<u>\$ 119,518</u>	<u>\$ 11,812</u>	<u>\$ 131,330</u>	<u>\$ 143,432</u>	<u>\$ -</u>	<u>\$ 143,432</u>	<u>\$ 135,592</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
OPERATING ACTIVITIES								
Receipts from customers	\$ 12,293	\$ 122,380	\$ 49,403	\$ 171,783	\$ 184,076	\$ (7,064)	\$ 177,012	\$ 235,007
Proceeds from sale of loans receivable	32,694	470	-	470	33,164	-	33,164	92,845
Interfund mortgages loan purchases and sales	40,248	562	-	562	40,810	-	40,810	41,313
Grant funds received in advance	1,927	-	-	-	1,927	-	1,927	485
Payment of grants	(1,518)	-	-	-	(1,518)	-	(1,518)	(1,529)
Payments to service providers								
State agencies	(250)	-	-	-	(250)	-	(250)	(361)
Mortgage loan purchases	(64,321)	(100,763)	-	(100,763)	(165,084)	-	(165,084)	(147,438)
Other	(7,111)	(4,769)	(986)	(5,755)	(12,866)	7,064	(5,802)	(5,383)
Payments to employees	(3,109)	-	-	-	(3,109)	-	(3,109)	(3,101)
Net cash provided by (used for) operating activities	10,853	17,880	48,417	66,297	77,150	-	77,150	211,838
NONCAPITAL FINANCING ACTIVITIES								
Principal payments on loan from Bank of ND	(68,004)	-	-	-	(68,004)	-	(68,004)	(121,406)
Principal payments on bonds payable	-	(131,680)	(58,150)	(189,830)	(189,830)	-	(189,830)	(209,045)
Proceeds from loan borrowings from Bank of ND	59,350	-	-	-	59,350	-	59,350	95,258
Proceeds from bond issuance	-	149,798	-	149,798	149,798	-	149,798	65,910
Interest paid on loans and bonds	(104)	(13,549)	(8,707)	(22,256)	(22,360)	-	(22,360)	(29,902)
LEPP funds	44	-	-	-	44	-	44	1,000
Proceeds from federal grants	11,825	-	-	-	11,825	-	11,825	11,287
Payment of federal grants	(12,206)	-	-	-	(12,206)	-	(12,206)	(11,877)
Transfers from Department of Commerce	415	-	-	-	415	-	415	628
Transfers to Industrial Commission	(30)	-	-	-	(30)	-	(30)	(28)
Interfund transfer in (out)	(2,940)	2,561	411	2,972	32	-	32	-
Net cash provided by (used for) noncapital financing activities	\$ (11,650)	\$ 7,130	\$ (66,446)	\$ (59,316)	\$ (70,966)	\$ -	\$ (70,966)	\$ (198,175)

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
INVESTING ACTIVITIES								
Purchase of investments	\$ (32,740)	\$ -	\$ -	\$ -	\$ (32,740)	\$ -	\$ (32,740)	\$ (92,845)
Proceeds from sale of investments	35,658	-	-	-	35,658	-	35,658	89,585
Interest received from investments	945	-	-	-	945	-	945	976
Net cash provided by (used for) investing activities	3,863	-	-	-	3,863	-	3,863	(2,284)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,066	25,010	(18,029)	6,981	10,047	-	10,047	11,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,407	105,264	44,852	150,116	165,523	-	165,523	154,144
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 18,473	\$ 130,274	\$ 26,823	\$ 157,097	\$ 175,570	\$ -	\$ 175,570	\$ 165,523
Cash and Cash Equivalents - Unrestricted	\$ 7,838	\$ -	\$ -	\$ -	\$ 7,838	\$ -	\$ 7,838	\$ 4,402
Cash and Cash Equivalents - Restricted	10,635	130,274	26,823	157,097	167,732	-	167,732	161,121
	\$ 18,473	\$ 130,274	\$ 26,823	\$ 157,097	\$ 175,570	\$ -	\$ 175,570	\$ 165,523

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Totals	
		1994 General Resolution	2009 General Resolution				2014	Restated 2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES								
Operating income (loss)	\$ 491	\$ 6,528	\$ 488	\$ 7,016	\$ 7,507	\$ -	\$ 7,507	\$ 7,554
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation	19	-	-	-	19	-	19	19
Amortization								
Original issue discounts and premiums	-	(1,518)	(409)	(1,927)	(1,927)	-	(1,927)	(1,663)
Service release premiums	842	-	-	-	842	-	842	1,109
Reclassification of interest expense to other activates	104	12,026	7,628	19,654	19,758	-	19,758	26,248
Changes in assets and liabilities:								
Decrease in due from HUD	(35)	-	-	-	(35)	-	(35)	3
(Increase) decrease in due from State Agencies	27	-	-	-	27	-	27	111
(Increase) decrease in other receivables	3,745	94	(424)	(330)	3,415	(3,320)	95	101
(Increase) decrease in service release premium	(683)	-	-	-	(683)	-	(683)	(760)
(Increase) decrease in prepaid expenses	4	3	-	3	7	-	7	(29)
(Increase) decrease in loan interest receivable	21	81	148	229	250	-	250	835
(Increase) decrease in loans receivable	9,741	(252)	40,583	40,331	50,072	-	50,072	176,855
Increase (decrease) in due to HUD	48	-	-	-	48	-	48	(68)
Increase (decrease) in due to State Agencies	(6)	-	-	-	(6)	-	(6)	(36)
Increase (decrease) in rebate due to IRS	-	(6)	-	(6)	(6)	-	(6)	(8)
Increase (decrease) in other liabilities	(4,598)	924	403	1,327	(3,271)	3,320	49	(95)
Increase (decrease) in compensated absences	17	-	-	-	17	-	17	5
Increase (decrease) funds held in trust	(811)	-	-	-	(811)	-	(811)	1,172
Increase (decrease) revolving loan fund received in advance	1,888	-	-	-	1,888	-	1,888	185
Increase (decrease) grant funds received in advance	39	-	-	-	39	-	39	300
Net cash provided by (used for) operating activities	<u>\$ 10,853</u>	<u>\$ 17,880</u>	<u>\$ 48,417</u>	<u>\$ 66,297</u>	<u>\$ 77,150</u>	<u>\$ -</u>	<u>\$ 77,150</u>	<u>\$ 211,838</u>
Non-cash disclosures:								
Increase (decrease) in fair value of investments	<u>\$ (652)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (652)</u>	<u>\$ -</u>	<u>\$ (652)</u>	<u>\$ (693)</u>
Fair value transfers	<u>\$ (652)</u>	<u>\$ 652</u>	<u>\$ -</u>	<u>\$ 652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment transfers	<u>\$ (412)</u>	<u>\$ 412</u>	<u>\$ -</u>	<u>\$ 412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfers associated with pledged loans	<u>\$ (624)</u>	<u>\$ 352</u>	<u>\$ 1,204</u>	<u>\$ 1,556</u>	<u>\$ 932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Description	Rent Supplements - Rental Housing for Lower Income Families	Section 8 Moderate Rehabilitation Single Room Occupancy	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitate ND901MR0001	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0003	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0004
Assets						
111	Cash - Unrestricted	\$ 261,800	\$ 24,700	\$ 58,202	\$ 25,418	\$ 14,259
113	Cash - Other Restricted	1	4,399	14,046	2,788	4,954
100	Total Cash	261,801	29,099	72,248	28,206	19,213
122	Accounts Receivable - HUD Other Projects	140,812	-	-	-	-
125	Accounts Receivable - Miscellaneous	150	56	96	57	30
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
120	Total Receivables, net of allowances for doubtful accounts	140,962	56	96	57	30
142	Prepaid Expenses and Other Assets	11,252	89	152	89	48
150	Total Current Assets	414,015	29,244	72,496	28,352	19,291
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-
190	Total Assets	\$ 414,015	\$ 29,244	\$ 72,496	\$ 28,352	\$ 19,291
Liabilities and Equity						
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
312	Accounts Payable <= 90 Days	43,252	234	398	233	126
331	Accounts Payable - HUD PHA Programs	1	4,399	14,046	2,788	4,954
310	Total Current Liabilities	43,253	4,633	14,444	3,021	5,080
350	Total Noncurrent Liabilities	-	-	-	-	-
300	Total Liabilities	\$ 43,253	\$ 4,633	\$ 14,444	\$ 3,021	\$ 5,080
508	Total Contributed Capital	\$ -	\$ -	\$ -	\$ -	\$ -
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-	-
511.1	Restricted Net Assets	-	4,399	14,046	2,788	4,954
512.1	Unrestricted Net Assets	370,762	20,212	44,006	22,543	9,257
513	Total Equity/Net Assets	370,762	24,611	58,052	25,331	14,211
600	Total Liabilities and Equity/Net Assets	\$ 414,015	\$ 29,244	\$ 72,496	\$ 28,352	\$ 19,291

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Description	Rent Supplements - Rental Housing for Lower Income Families	Section 8 Moderate Rehabilitation Single Room Occupancy	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitate ND901MR0001	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0003	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0004
70500	Total Tenant Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
70600	HUD PHA Operating Grants	11,830,296	59,663	165,378	59,138	69,520
71100	Investment Income - Unrestricted	-	7	12	7	4
72000	Investment Income - Restricted	47	1	1	1	-
700	Total Revenue	11,830,343	59,671	165,391	59,146	69,524
Expenses						
91100	Administrative Salaries	305,297	7,435	12,702	7,435	4,027
91200	Auditing Fees	6,896	163	279	163	88
91500	Employee Benefit Contribution - Administrative	122,029	2,947	5,034	2,947	1,596
91600	Office Expense	59,103	2,196	3,752	2,196	1,190
91800	Travel	16,456	88	147	87	46
91900	Other	81,863	3,531	6,033	3,532	1,914
96900	Total Operating Expenses	591,644	16,360	27,947	16,360	8,861
97000	Excess Operating Revenue over Operating Expenses	11,238,699	43,311	137,444	42,786	60,663
97300	Housing Assistance Payments	11,104,352	40,966	133,435	40,441	59,392
90000	Total Expenses	11,695,996	57,326	161,382	56,801	68,253
10100	Total Other Financing Sources (Uses)	-	-	-	-	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$ 134,347	\$ 2,345	\$ 4,009	\$ 2,345	\$ 1,271
Memo Account Information						
11020	Debt Principal Payments - Enterprise Funds	-	-	-	-	-
11030	Beginning Equity	236,415	22,266	54,043	22,986	12,940
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-
11130	Maximum Annual Contributions Commitment (per ACC)	12,771,148	116,928	205,941	79,741	80,383
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	5,447,524	62,968	76,201	76,280	31,451
11160	Total Annual Contributions Available	18,218,672	179,896	282,142	156,021	111,834
11200	Unit Months Available	37,890	288	492	288	156
11210	Number of Unit Months Leased	37,890	272	475	215	132

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Description	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0005	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0006	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0008	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0009
Assets					
111	Cash - Unrestricted	\$ 16,979	\$ 99,626	\$ 14,119	\$ 44,493
113	Cash - Other Restricted	5,172	15,133	1,422	8,206
100	Total Cash	22,151	114,759	15,541	52,699
122	Accounts Receivable - HUD Other Projects	2,949	-	-	-
125	Accounts Receivable - Miscellaneous	40	172	28	84
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-
120	Total Receivables, net of allowances for doubtful accounts	2,989	172	28	84
142	Prepaid Expenses and Other Assets	63	271	45	134
150	Total Current Assets	25,203	115,202	15,614	52,917
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-
180	Total Non-Current Assets	-	-	-	-
190	Total Assets	\$ 25,203	\$ 115,202	\$ 15,614	\$ 52,917
Liabilities and Equity					
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -
312	Accounts Payable <= 90 Days	165	708	116	349
331	Accounts Payable - HUD PHA Programs	5,172	15,133	1,422	8,206
310	Total Current Liabilities	5,337	15,841	1,538	8,555
350	Total Noncurrent Liabilities	-	-	-	-
300	Total Liabilities	\$ 5,337	\$ 15,841	\$ 1,538	\$ 8,555
508	Total Contributed Capital	\$ -	\$ -	\$ -	\$ -
508.1	Invested in Capital Assets, Net of Related Debt	-	-	-	-
511	Total Reserved Fund Balance	-	-	-	-
511.1	Restricted Net Assets	5,172	15,133	1,422	8,206
512.1	Unrestricted Net Assets	14,694	84,228	12,654	36,156
513	Total Equity/Net Assets	19,866	99,361	14,076	44,362
600	Total Liabilities and Equity/Net Assets	\$ 25,203	\$ 115,202	\$ 15,614	\$ 52,917

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Description	Lower Income Housing Assistance		Lower Income Housing Assistance	
		Program_Section 8 Moderate Rehabilitat ND901MR0005	Program_Section 8 Moderate Rehabilitat ND901MR0006	Program_Section 8 Moderate Rehabilitat ND901MR0008	Program_Section 8 Moderate Rehabilitat ND901MR0009
Revenue					
70500	Total Tenant Revenue	\$ -	\$ -	\$ -	\$ -
70600	HUD PHA Operating Grants	93,227	200,542	52,691	95,181
71100	Investment Income - Unrestricted	5	21	3	10
72000	Investment Income - Restricted	1	2	-	1
700	Total Revenue	93,233	200,565	52,694	95,192
Expenses					
91100	Administrative Salaries	5,267	22,616	3,718	11,153
91200	Auditing Fees	116	497	82	245
91500	Employee Benefit Contribution - Administrative	2,088	8,964	1,474	4,421
91600	Office Expense	1,556	6,680	1,098	3,295
91800	Travel	61	260	41	129
91900	Other	2,501	10,742	1,766	5,296
96900	Total Operating Expenses	11,589	49,759	8,179	24,539
97000	Excess Operating Revenue over Operating Expenses	81,644	150,806	44,515	70,653
97300	Housing Assistance Payments	79,982	143,668	43,341	67,133
90000	Total Expenses	91,571	193,427	51,520	91,672
10100	Total Other Financing Sources (Uses)	-	-	-	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$ 1,662	\$ 7,138	\$ 1,174	\$ 3,520
Memo Account Information					
11020	Debt Principal Payments - Enterprise Funds	-	-	-	-
11030	Beginning Equity	18,204	92,223	12,902	40,842
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-
11130	Maximum Annual Contributions Commitment (per ACC)	116,839	132,485	57,289	149,571
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	-	68,059	6,461	64,427
11160	Total Annual Contributions Available	116,839	200,544	63,750	213,998
11200	Unit Months Available	204	876	144	432
11210	Number of Unit Months Leased	185	185	140	332

NORTH DAKOTA HOUSING FINANCE AGENCY
ADJUSTED NET WORTH CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period	<u>\$ 135,592</u>
Less:	
Itemized unacceptable assets	
1. Due from state agencies	\$ (26)
2.	\$ -
3.	\$ -
Total unacceptable assets	<u>\$ (26)</u>
Adjusted net worth	<u><u>\$ 135,566</u></u>

B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 15)	<u>\$ 135,940</u>
Plus:	
Outstanding balance of commitment authority issued and requested	<u>\$ -</u>
Total outstanding portfolio and authority	<u>\$ 135,940</u>
Required net worth	<u><u>\$ 1,382</u></u>

C. Excess (deficit) net worth

(Adjusted net worth - required net worth)	<u><u>\$ 134,184</u></u>
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NORTH DAKOTA HOUSING FINANCE AGENCY
INSURANCE COVERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

A. <u>Identification of affiliated Ginnie Mae issuers</u>	
Affiliated Ginnie Mae issuers (Issuer name and Ginnie Mae issuer identification code)	<u>None</u>
Affiliated issuers on same insurance policies (Issuer name and Ginnie Mae issuer identification number)	<u>None</u>
B. <u>Required insurance calculation</u>	
Servicing portfolio	
Ginnie Mae	\$ 135,940
Fannie Mae	614
Freddie Mac	-
Conventional (other)	<u>625,407</u>
Total servicing portfolio	<u>761,961</u>
Required fidelity bond coverage	<u>1,252</u>
Required mortgage servicing errors and omissions coverage	<u>1,252</u>
C. <u>Verification of insurance coverage</u>	
Fidelity bond coverage at end of reporting period	<u>2,000</u>
Mortgage servicing errors and omissions coverage at end of reporting period	<u>2,000</u>
D. <u>Excess (deficit) insurance coverage</u>	
Fidelity bond coverage	<u>748</u>
Required servicing errors and omissions coverage	<u>748</u>
E. <u>Ginnie Mae loss payable endorsement</u>	
Fidelity bond coverage	<u>Yes</u>
Mortgage servicing errors and omissions coverage	<u>Yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
CAPITAL REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

A. Capital requirement for depository institutions

Tier 1 capital	\$ -	
Total capital	<u>\$ -</u>	
Risk-based assets	\$ -	
Total assets	<u>\$ -</u>	
Tier 1 capital / total assets		<u>- %</u>
Tier 1 capital / risk-based assets		<u>- %</u>
Total capital / risk-based assets		<u>- %</u>
		<u>Meets</u>
5% of tier 1 capital / total assets	\$ -	<u>N/A</u>
6% of tier 1 capital / risk-based assets	\$ -	<u>N/A</u>
10% of total capital / risk-based assets	\$ -	<u>N/A</u>

B. Capital requirement for nodepository institutions

Total adjusted net worth	\$ 135,566	
Total assets	<u>\$ 823,142</u>	
		<u>Meets</u>
Total adjusted net worth / total assets	<u>16.47%</u>	<u>yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
LIQUID ASSET REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

A. Liquid asset calculation

Required net worth (from adjusted net worth calculation, page 54)		<u>\$ 1,382</u>
Acceptable liquid assets		
1. Cash and cash equivalents	<u>\$ 175,570</u>	
Total liquid assets		<u>\$ 175,570</u>

B. Required liquid asset

		<u>Meets Requirement?</u>
Excess (deficit) liquid (Total liquid assets / required net worth)	<u>12704%</u>	<u>yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Federal Agency /Pass through Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Rural Housing Service Division			
Very Low to Moderate Income Housing Loans	10.410		\$ <u>20,599,847</u>
<u>Department of Housing and Urban Development</u>			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117		43,436,760
Rent Supplements - Rental Housing for Lower Income Families	14.149		11,695,851
Housing Counseling Assistance Program	14.169		111,788
Lower Income Housing Assistance Program -			
Section 8 Moderate Rehabilitation	14.856	A	714,625
Section 8 Moderate Rehabilitation - Single room occupancy	14.249	A	57,326
Community Development Block Grants	14.228	B	905,661
Community Planning and Development Division			
Pass through from ND Department of Commerce			
		3173-M11PI-14	
		3316-M12PI-14	
HOME Investment Partnership Program	14.239	2816-M10PI-14	43,632
Pass through from ND Department of Commerce			
Community Development Block Grants	14.228	B 2409-NSP09	<u>146,714</u>
Total Department of Housing and Urban Development			<u>57,112,356</u>
<u>Department of Veterans Affairs</u>			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114		<u>2,827,067</u>
TOTAL			<u><u>\$ 80,539,270</u></u>

A Section 8 Project-Based Cluster total \$771,951.

B Community Development Block Grants CFDA #14.228 total \$1,052,375.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 LOAN GUARANTEES AND INSURANCE

The following is the balance of federal loan guarantees and insurance outstanding as of June 30, 2014.

Very Low to Moderate Income Housing Loans	10.410	\$ 131,962,750
Mortgage Insurance - Homes	14.117	406,299,095
Veterans Housing - Guaranteed and Insured Loans	64.114	34,253,998

NOTE 3 SUBRECIPIENTS

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

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>		
Community Development Block Grants	14.228	\$ 1,013,230
Housing Counseling Assistance Program	14.169	111,788



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

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

Audit Report Communications:

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

Unmodified opinion.

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

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

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no prior year findings.

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

No.

Audit Committee Communications:

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

None.

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

None.

- 9. Identify any significant audit adjustments.**

None.

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

None.

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

None.

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

None.

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

None.

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

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

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

Brady . Martz

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 8, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements, and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

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

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

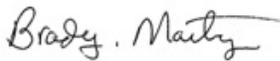
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 8, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited North Dakota Housing Finance Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Dakota Housing Finance Agency's major federal programs for the year ended June 30, 2014. North Dakota Housing Finance Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Dakota Housing Finance Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Dakota Housing Finance Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Dakota Housing Finance Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, North Dakota Housing Finance Agency, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

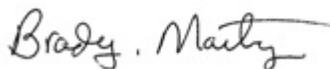
Report on Internal Control Over Compliance

Management of North Dakota Housing Finance Agency, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Dakota Housing Finance Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Dakota Housing Finance Agency's internal control over compliance.

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

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

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 8, 2014

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

Section I-Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

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

Unmodified

Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)?	<u> </u> yes	<u> x </u> no
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.117	Mortgage Insurance - Homes
64.114	Veterans Housing - Guaranteed and Insured Loans

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$1,113,075</u>
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Auditee qualified as a low-risk auditee?	<u> x </u> yes	<u> </u> no
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NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

Section II-Financial Statement Findings

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

Section III – Federal Award Findings and Questioned Costs

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

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF PRIOR YEARS FINDINGS
JUNE 30, 2014

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 8, 2014

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

We have audited the financial statements of the business-type activities of North Dakota Housing Finance Agency, a department of the State of North Dakota, for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Housing Finance Agency are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, North Dakota Housing Finance Agency changed accounting policies related to deferred bond financing costs by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities*. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

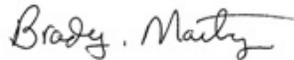
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

Other Matters

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

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

Very truly yours,

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

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota