

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly above, in all material respects, the net financial position of the business-type activities of the North Dakota Housing Finance Agency, as of June 30, 2015, and its revenues, expenses and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

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, 2015, the changes in its financial position or, where applicable, its cash flows for the year 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. 68, *Accounting and Financial Reporting for Pensions*. 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, the schedule of employer's share of net pension liability and the schedule of employer contributions, as listed in the table of contents 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*

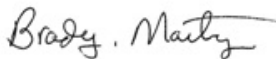
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Housing Finance Agency's basic financial statements. The combining financial statements shown on pages 44 to 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary information shown on pages 50 to 51 is presented for

purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information shown on pages 52 to 55 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 55 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the 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 14, 2015 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 14, 2015

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
JUNE 30, 2015  
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Housing Finance Agency (Agency) that follows is meant to provide additional insight into the Agency's activities for the year ended June 30, 2015. Please read it in conjunction with the Agency's financial statements and footnotes, which are presented within this report.

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

**Financial Highlights**

In FY2015, mortgage loans receivable increased \$32,296 to \$661,555. This is a net change of \$146,261 in loans purchased, \$115,693 of repaid principal, an increase in loan premiums/discounts of \$1,793 and an increase of \$65 in mortgage loan loss reserve.

Bonds payable decreased in FY2015 by \$16,804 to \$637,155 with \$117,720 new bonds issued, \$136,385 bonds being called or maturing and a \$1,861 net increase in bond premiums and discounts. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

The loan from Bank of North Dakota increased from \$0 in FY 2014 to \$10,099 in FY2015. \$62,299 of new loans were obtained and \$52,200 of principal payments were made in FY2015.

The Agency's net position increased in FY2015 by \$8,611 to \$152,310 as a result of the year's program operations and financing activities.

FY2015 Income Before Transfers of \$8,611 was up from the prior year by \$1,156 due to a decrease in Interest Expense and a decrease in Agency Grant Expense. This increase was partially offset by lower Mortgage Interest Income.

Operating revenues in FY2015 of \$34,401 were down \$1,803 from the prior year as a result of lower Mortgage Interest Income along with less Investment 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.

FY2015 operating expenses of \$25,536 were down \$3,161 from FY2014 as a result of lower interest expense due to less bonds outstanding and lower general operating expenses including lower Agency Grants expense. This was offset slightly by the GASB 68 adjustment for Pension Expense which was implemented by the Agency in FY2015.

In FY2015, the Agency implemented GASB 68 relating to Pension Liabilities, Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the Agency reported a liability of \$1,064 for its proportionate share of the net pension liability.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
 JUNE 30, 2015  
 (In Thousands)

**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.

**Condensed Statement of Net Position**  
**June 30, 2015 and 2014**  
**(In Thousands)**

	<u>2015</u>	<u>2014*</u>	<u>Change</u>	<u>Percentage</u>
<b>ASSETS</b>				
Unrestricted current assets	\$ 4,438	\$ 9,108	\$ (4,670)	(51) %
Restricted current assets	160,128	185,961	(25,833)	(14)
Total current assets	<u>164,566</u>	<u>195,069</u>	<u>(30,503)</u>	<u>(16)</u>
Unrestricted noncurrent assets	2,705	2,525	180	7
Restricted noncurrent assets	660,285	625,548	34,737	6
Total noncurrent assets	<u>662,990</u>	<u>628,073</u>	<u>34,917</u>	<u>6</u>
Total assets	<u>\$ 827,556</u>	<u>\$ 823,142</u>	<u>\$ 4,414</u>	<u>1 %</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total deferred outflows of resources	<u>\$ 9,290</u>	<u>\$ 10,653</u>	<u>\$ (1,363)</u>	<u>(13) %</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 46,813	\$ 63,593	\$ (16,780)	(26) %
Noncurrent liabilities	637,410	626,770	10,640	2
Total liabilities	<u>\$ 684,223</u>	<u>\$ 690,363</u>	<u>\$ (6,140)</u>	<u>(1) %</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total deferred inflows of resources	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 313</u>	<u>- %</u>
<b>NET POSITION</b>				
Invested in capital assets	\$ -	\$ 1	\$ (1)	(100) %
Restricted for debt service	144,952	131,330	13,622	10
Unrestricted	7,358	12,101	(4,743)	(39)
Total net position	<u>\$ 152,310</u>	<u>\$ 143,432</u>	<u>\$ 8,878</u>	<u>6 %</u>

\*2014 balances do not represent the effects of GASB 68



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

**Statement of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2015 and 2014**  
(In Thousands)

	<u>2015</u>	<u>2014*</u>	<u>Change</u>	<u>Percentage</u>
<b>OPERATING REVENUES</b>				
Mortgage interest income	\$ 28,611	\$ 30,064	\$ (1,453)	(5) %
Investment income	2,252	2,463	(211)	(9)
Gain on sale of investment	131	529	(398)	(75)
Fee income	3,407	3,148	259	8
Total revenues	<u>34,401</u>	<u>36,204</u>	<u>(1,803)</u>	<u>(5)</u>
<b>OPERATING EXPENSES</b>				
Interest expense	17,850	19,695	(1,845)	(9)
Agency grants	522	1,530	(1,008)	(66)
Administrative and operating expenses	3,914	4,339	(425)	(10)
Salaries and benefits	3,090	3,114	(24)	(1)
Pension expense	159	-	159	-
Depreciation	1	19	(18)	(95)
Total expenses	<u>25,536</u>	<u>28,697</u>	<u>(3,161)</u>	<u>(11)</u>
OPERATING INCOME	<u>8,865</u>	<u>7,507</u>	<u>1,358</u>	<u>18</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal grants	11,566	11,825	(259)	(2)
Miscellaneous revenue	2	44	(42)	-
Investment income	152	286	(134)	(47)
Federal grants	(11,974)	(12,207)	233	(2)
	<u>(254)</u>	<u>(52)</u>	<u>(202)</u>	<u>388</u>
INCOME BEFORE TRANSFERS	8,611	7,455	1,156	16
<b>TRANSFERS</b>				
Transfers from Dept. of Commerce	435	415	20	5
Transfer in from Adjutant General	1,494	-	1,494	-
Transfers to Industrial Commission	(30)	(30)	-	-
CHANGE IN NET POSITION	10,510	7,840	2,670	34
TOTAL NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	<u>143,432</u>	<u>135,592</u>	<u>7,840</u>	<u>6</u>
GASB 68 ADJUSTMENT	<u>(1,632)</u>	<u>-</u>	<u>(1,632)</u>	<u>-</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>141,800</u>	<u>135,592</u>	<u>6,208</u>	<u>5</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 152,310</u>	<u>\$ 143,432</u>	<u>\$ 8,878</u>	<u>6</u> %

\*2014 balances do not represent the effects of GASB 68.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2015  
(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.

FY2015 Operating interest income of \$2,252 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 FY2015 Non-Operating Interest Income was down \$134 from the prior year. This is due to our Treasury and FNMA investments losing market value as maturity dates on these investments are approaching.

**Outlook**

NDHFA continues to be successful in obtaining bond financing to purchase mortgage loans by implementing various bond structures including issuing fixed rate and variable rate bonds and entering Interest Rate SWAP agreements. The structure depends on current rates available in both the bond market and the mortgage loans. The Agency continues to monitor the markets to determine if GNMA eligible loans should be securitized into an MBS or if Bond financing is the better option.

Due in large part to the oil production in the western part of the state, North Dakota continues to have a large population in temporary or sub-standard housing. The Agency anticipates that affordable housing will continue to be a major issue in the western part of North Dakota as well as the entire state as current residents move from temporary housing to more permanent homes and apartments. North Dakota is fortunate to have the economic impact from the oil industry, however it is also an agricultural and energy producing state. This contributes to its economic well-being including the need for affordable housing statewide.

As mentioned above, the oil industry has played a role in the amount of housing needed in North Dakota. NDHFA did not see a major increase in single family housing activity in the oil patch for a variety of reasons. First, the price of housing went up substantially in areas such as Williston, ND, so many of the homes available did not qualify for our First Home programs. Also, the wages in the oil fields were quite high meaning the employees did not qualify for NDHFA financing as they were above the income limit. With the downturn in oil activity, we anticipate housing price increases to taper off or even drop somewhat allowing more homes to fit in the allowable price range of first time homebuyers. In addition, most of the remaining employees in the oil fields are looking at North Dakota as a place to live long-term. There is still substantial activity in the oil fields, however a lot of that is the actual oil extraction rather than drilling new wells. Permanent jobs translate to permanent housing needs and NDHFA anticipates the need for affordable housing to remain strong in the oil patch as well as throughout the state.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2015  
(In Thousands)

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. The ROOTS program is growing substantially which should counter against any downturn in the First Time Home Buyer program that may come about as a result of the slowdown in the oil field.

**Budgetary Information**

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

**Contacting the North Dakota Housing Finance Agency's Financial Management**

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

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**  
(In Thousands)

**ASSETS**

**CURRENT ASSETS - UNRESTRICTED**

Cash and cash equivalents	\$ 3,232
Due from State Agencies	21
Receivables	
Interest	
Loans	15
Investments	121
Due from HUD	170
Other	413
Current portion of service release premium	428
Prepaid expenses	38
Total unrestricted current assets	<u>4,438</u>

**CURRENT ASSETS - RESTRICTED**

Cash and cash equivalents	141,570
Receivables	
Current portion of loans receivable	16,043
Interest	
Loans	2,463
Investments	19
Other	33
Total restricted current assets	<u>160,128</u>

Total current assets 164,566

**NONCURRENT ASSETS - UNRESTRICTED**

Service release premium, net	<u>2,705</u>
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**NONCURRENT ASSETS - RESTRICTED**

Loans receivable, net of current portion	645,512
Investments	14,773
Total restricted noncurrent assets	<u>660,285</u>

Total noncurrent assets 662,990

Total assets 827,556

**DEFERRED OUTFLOW OF RESOURCES**

Deferred outflow - pension	305
Financial derivative instrument	8,985
Total deferred outflows of resources	<u>9,290</u>

**LIABILITIES****CURRENT LIABILITIES**

Due to HUD	\$	28
Due to state agencies		20
Other		833
Current portion of compensated absences		184
Current portion of bonds payable		14,960
Loan from Bank of North Dakota		10,099
Accrued interest		9,364
Funds held in trust		11,266
Grant funds received in advance		<u>59</u>
Total current liabilities		<u>46,813</u>

**NONCURRENT LIABILITIES**

Compensated absences, net of current portion		106
Rebate due to IRS, net of current portion		86
Grant funds received in advance		4,435
Net pension liability		1,604
Financial derivative instrument		8,984
Bonds payable, net of current portion		<u>622,195</u>
Total noncurrent liabilities		<u>637,410</u>
Total liabilities		<u>684,223</u>

**DEFERRED INFLOW OF RESOURCES**

Deferred inflow - pension		<u>313</u>
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**NET POSITION**

Restricted for debt service		144,952
Unrestricted		<u>7,358</u>
Total net position	\$	<u><u>152,310</u></u>

See Notes to Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

OPERATING REVENUES	
Mortgage interest income	\$ 28,611
Investment income	2,252
Gain on sale of investments	131
Fee income	3,407
Total revenues	<u>34,401</u>
OPERATING EXPENSES	
Interest expense	17,850
Agency grants	522
Administrative and operating expenses	3,914
Salaries and benefits	3,090
Pension expense	159
Depreciation	1
Total expenses	<u>25,536</u>
OPERATING INCOME	<u>8,865</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants	11,566
Miscellaneous revenue	2
Investment income	152
Federal grants	(11,974)
Total nonoperating revenues (expenses)	<u>(254)</u>
INCOME BEFORE TRANSFERS	<u>8,611</u>
TRANSFERS	
Transfers in from Department of Commerce	435
Transfer in from Adjutant General	1,494
Transfers out to Industrial Commission	<u>(30)</u>
CHANGE IN NET POSITION	<u>10,510</u>
TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	<u>143,432</u>
GASB 68 ADJUSTMENT	<u>(1,632)</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>141,800</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 152,310</u></u>

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

<b>OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 144,154
Proceeds from sale of loans receivable	5,343
Grant funds received in advance	81
Payment of grants	(579)
Payments to service providers	
State agencies	(238)
Mortgage loan purchases	(146,261)
Other	(5,525)
Payments to employees	(3,246)
Net cash used by operating activities	<u>(6,271)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>	
Principal payments on loan from Bank of North Dakota	(52,200)
Principal payments on bonds payable	(136,385)
Proceeds from loan borrowings from Bank of North Dakota	62,299
Proceeds from bond issuance	121,158
Interest paid on loans and bonds	(18,303)
Change in LEPP funds	2
Proceeds from federal grants	11,566
Payment of federal grants	(11,974)
Transfers from Department of Commerce	435
Transfers from Adjutant General	1,494
Transfers to Industrial Commission	(30)
Net cash used for noncapital financing activities	<u>(21,938)</u>
<b>INVESTING ACTIVITIES</b>	
Purchase of investments	(3,920)
Proceeds from sale of investments	500
Interest received from investments	861
Net cash used by for investing activities	<u>(2,559)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(30,768)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>175,570</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 144,802</u>
<b>CASH AND CASH EQUIVALENTS - UNRESTRICTED</b>	<b>\$ 3,232</b>
<b>CASH AND CASH EQUIVALENTS - RESTRICTED</b>	<u>141,570</u>
	<u>\$ 144,802</u>

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF CASH FLOWS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

RECONCILIATION OF OPERATING INCOME TO NET	
CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ 8,865
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	1
Amortization	
Original issue discounts and premiums	(1,577)
Service release premium	817
Reclassification of interest income/expense to other activities	17,839
Deferred outflow - pension	(76)
Deferred inflows - pension	313
Changes in assets and liabilities:	
Increase in due from HUD	(25)
Decrease in due from State Agencies	5
Decrease in other receivables	82
Increase in service release premium	(1,014)
Decrease in prepaid expenses	17
Increase in loan interest receivable	(43)
Increase in loans receivable	(32,296)
Decrease in due to HUD	(32)
Increase in due to State Agencies	4
Increase in rebate due to IRS	12
Decrease in other liabilities	(74)
Increase in compensated absences	9
Increase funds held in trust	1,072
Decrease net pension liability	(251)
Increase grant funds received in advance	81
	<u>81</u>
Net cash used by operating activities	<u>\$ (6,271)</u>
Non-cash disclosures:	
Decrease in fair value of investments	<u>\$ (708)</u>

See Notes to the Financial Statements



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENT OF APPROPRIATIONS**  
**BIENNIUM ENDED JUNE 30, 2015**  
(In Thousands)

	2013-2015 Appropriations Original	2013-2015 Appropriations As Adjusted	2013-2015 Expenditures	Unexpended Appropriations
Administrative Expenses:				
Salaries, wages and benefits	\$ 7,583	\$ 7,583	\$ 6,377	\$ 1,206
Operating expenses	3,792	3,792	3,240	552
Grants, benefits and claims	31,033	31,033	28,319	2,714
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>\$ 53,336</u>	<u>\$ 4,572</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, 2015, 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):

Total expenditures	\$ 17,657
Less: Grants, benefits and claims	(12,656)
Administrative and operating expenses relating to	
Rental, Homeownership Bonds and Agency expenses	1,278
Amortization of service release premium	817
Interest expense for the Agency	(92)
Depreciation	<u>1</u>
Total administrative and operation expenses, salaries and benefits, and depreciation	<u>\$ 7,005</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2015  
(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, 2015  
(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, 2015  
(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, 2015  
(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.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2015  
(In Thousands)

**Operating and Non-operating Revenues**

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

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

**Implementation of New Accounting Principles**

The Agency implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during the year ended June 30, 2015. GASB Statement No. 68 established accounting and financial reporting requirements related to pensions 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. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense / expenditures. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

**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, 2015 was \$16,421 consisting of interest-bearing and noninterest-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 amount of the deposits of the Agency at the Bank of North Dakota at June 30, 2015 was \$17,018.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
 JUNE 30, 2015  
 (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 as reported on the balance sheet at June 30, 2015 is as follows:

Unrestricted	
Cash and cash equivalents	
Deposits at Bank of North Dakota	\$ 3,232
	<u>3,232</u>
Total cash and cash equivalents	<u>\$ 3,232</u>
Restricted	
Cash and cash equivalents	
Deposits at Bank of North Dakota	\$ 13,788
Deposits at Wells Fargo	1,012
Cash and cash equivalents held in trust	43,377
Fixed rate investment agreements reported as cash equivalents	<u>83,393</u>
Total cash and cash equivalents	<u>\$ 141,570</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, 2015:

	<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	\$ 4,431	\$ -	\$ 4,431	\$ -	\$ -
US Treasury Bonds	5,498	-	5,498	-	-
Mortgage Backed Securities	<u>4,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,844</u>
Total Debt Securities	<u>\$ 14,773</u>	<u>\$ -</u>	<u>\$ 9,929</u>	<u>\$ -</u>	<u>\$ 4,844</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
 JUNE 30, 2015  
 (In Thousands)

**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, 2015:

	S&P Credit Rating AA+	Total Market Value
Federal National Mortgage Association	\$ 4,431	\$ 4,431
U.S. Treasury Bonds		5,498
Mortgage Backed Securities		4,844
Total Debt Securities		\$ 14,773

Agency Operating Fund investment securities with a carrying amount of approximately \$14,773 at June 30, 2015 were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

**NOTE 4 LOANS RECEIVABLE**

Loans receivable at June 30, 2015, consist of the following:

Restricted:		
Agency operating funds		\$ 5,973
Less: current portion		152
		\$ 5,821
Restricted:		
Homeownership bond funds		\$ 655,582
Less: current portion		15,891
		\$ 639,691

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.



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
 JUNE 30, 2015  
 (In Thousands)

Included in Homeownership and Agency mortgage loans are loans totaling \$63 in real estate loans in judgment (REJ), and 22 loans totaling \$2,344 were in the foreclosure process at June 30, 2015. 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:

Due from HUD	<u>\$ 170</u>
Due to HUD	<u>\$ 28</u>

**NOTE 6 EQUIPMENT**

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

	Equipment	Accumulated Depreciation	Net Equipment
Balance July 1, 2014	\$ 197	\$ 196	<u>\$ 1</u>
Additions	-	1	
Balance June 30, 2015	<u>\$ 197</u>	<u>\$ 197</u>	<u>\$ -</u>

**NOTE 7 OTHER RECEIVABLES**

A detail of other receivables as of June 30, 2015 is as follows:

Unrestricted:	
Receivable from developers	\$ 287
Accounts receivable	<u>126</u>
	<u>\$ 413</u>
Restricted	
Accounts receivable	<u>\$ 33</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

**NOTE 8 RELATED PARTY TRANSACTIONS**

The Agency had the following transactions with related parties as of June 30, 2015:

Cash and cash equivalents - unrestricted	
Bank of North Dakota	<u>\$ 3,232</u>
Cash and cash equivalents - restricted	
Bank of North Dakota	<u>\$ 13,788</u>
Due from state agencies	
Department of Commerce	\$ 21
Due to state agencies	
Information Technology Department	\$ 6
Attorney General	9
Department of Transportation	1
Bank of North Dakota	<u>4</u>
	<u>\$ 20</u>
Loans payable to the Bank of North Dakota	<u>\$ 10,099</u>
Transfers in	
Department of Commerce	<u>\$ 435</u>
Transfers out	
Industrial Commission	<u>\$ 30</u>
Administrative and operating expenses	
Bank of North Dakota	
Line of credit interest expense	\$ 111
Information Technology Department	
Telephone	20
Data processing	56
Attorney General	
Legal fees	33
Office of Management and Budget	
Supplies and conferences	13
Risk management premium	1
Department of Transportation	
Travel	9
North Dakota State Radio Communications	
NCIC access	2
Housing Incentive Fund	
Administration and support	15

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
 JUNE 30, 2015  
 (In Thousands)

**NOTE 9 OTHER LIABILITIES**

A detail of other liabilities as of June 30, 2015 is as follows:

Remarketing fees	\$ 35
Commitment fees	132
Accounts payable	582
NIPB fee	6
Trustee fees	78
	<u>833</u>
	<u>\$ 833</u>

**NOTE 10 COMPENSATED ABSENCES**

A summary of compensated absences as of June 30, 2015 is as follows:

Beginning balance, July 1	\$ 280
Additions	205
Reductions	<u>(195)</u>
Ending balance, June 30	<u>\$ 290</u>
Amounts due within one year	<u>\$ 184</u>

**NOTE 11 BONDS PAYABLE**

**Change in Bonds Payable**

A summary of changes in bonds payable follows:

	Balance 7/1/14	Additions	Reductions	Balance 6/30/15	Amounts Due Within One Year
Homeownership bond funds, par	\$ 646,785	\$ 117,720	\$ 136,385	\$ 628,120	\$ 14,340
Premium on bond funds	7,174	3,438	1,577	9,035	620
Homeownership bond funds, net	<u>\$ 653,959</u>	<u>\$ 121,158</u>	<u>\$ 137,962</u>	<u>\$ 637,155</u>	<u>\$ 14,960</u>

**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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

**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>
2016	\$ 14,960	\$ 20,387	\$ 35,347
2017	18,770	20,958	39,728
2018	20,365	20,566	40,931
2019	20,515	20,090	40,605
2020	21,630	19,549	41,179
2021-2025	94,585	88,331	182,916
2026-2030	109,185	71,110	180,295
2031-2035	126,960	48,963	175,923
2036-2040	144,070	22,166	166,236
2041-2045	55,970	3,512	59,482
2046-2050	1,110	18	1,128
Premiums	9,035	(9,035)	-
	<u>\$ 637,155</u>	<u>\$ 326,615</u>	<u>\$ 963,770</u>

**Schedules of Bonds Payable**

The following summarizes the Agency's bonds payable outstanding at June 30, 2015. 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>6/30/2015 Balance</u>
Series 2005CD		
Term bond 1/1/36	Variable	\$ 12,000
Series 2006A		
Term bond 7/1/37	Variable	27,625
Premium (discount)		715
Series 2007AB		
Term bond 1/1/37 (Premium)	5.5	7,470
Premium (discount)		173
Series 2007CD		
Term bond 1/1/38 (Premium)	5.75	5,630
Premium (discount)		83

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

	<u>Interest Rate</u>	<u>6/30/2015 Balance</u>
Series 2008 A		
Term bond 1/1/39	Variable	\$ 13,155
Premium		307
Series 2008 B		
Term bond 07/1/2038	Variable	12,735
Series 2008 D		
Term bond 7/1/39	Variable	21,850
Series 2009 AB		
Term bond 1/1/30	Variable	47,745
Series 2009 CD		
Serial bonds 1/1/11 - 7/1/21	1.0 - 4.125	6,440
PAC Term Bond 1/1/2029 (Premium)	5.25	3,670
Term bond 1/1/41 (Premium)	4.44	4,270
Term bond 7/1/41	3.96	16,980
Premium		238
Series 2010 AB		
Serial bonds 7/1/11 - 7/1/21	.75 - 4.05	6,280
PAC Term Bond 7/1/2028 (Premium)	5.0	4,385
Term bond 7/1/41	3.96	25,080
Premium		182
Series 2010 CD		
Serial bonds 7/1/12 - 7/1/20	.90 - 3.40	2,875
Term bond 7/1/26	4.125	910
Term bond 1/1/29 (Premium)	4.50	2,785
Term bond 7/1/41	3.16	15,290
Premium		141
Series 2010 EF		
Serial bonds 7/1/11 - 7/1/20	.60 - 3.45	8,005
Term bond 7/1/25	4.375	1,500
Term bond 7/1/30	4.75	765
PAC Term Bond 7/1/2041 (Premium)	4.5	5,335
PAC Term Bond 1/1/2035 (Premium)	4.5	6,820
Premium		258

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

	<u>Interest Rate</u>	<u>6/30/2015 Balance</u>
<b>Series 2011 AB</b>		
Serial bonds 7/1/12 - 7/1/22	.35 - 4.0	\$ 13,035
Term bond 1/1/28 (Premium)	4.5	5,290
Term bond 1/1/31	3.96	6,470
Term bond 7/1/41	3.96	28,410
Premium		281
<b>Series 2011 CD</b>		
Serial bonds 1/1/13 - 7/1/22	.85 - 3.7	5,395
Term bond 1/1/26	4.125	1,450
Term bond 1/1/28 (Premium)	4.25	1,885
Term bond 7/1/41	3.96	15,300
Premium		54
<b>Series 2012 AB</b>		
Serial bonds 7/1/13 - 7/1/21	0.6 - 3.05	11,550
Serial bonds 7/1/21 - 7/1/24	2.75 - 3.05	6,165
Term bond 7/1/27	3.35	4,195
Term bond 7/1/32	3.6	5,560
Term bond 7/1/34	3.75	2,160
Term bond 7/1/42 (Premium)	3.75	14,585
Premium		847
<b>Series 2013 A</b>		
Serial bonds 7/1/14 - 7/1/23	.45 - 3.8	12,460
Term bond 7/1/28	4.65	8,220
Term bond 7/1/33	5.0	6,455
Term bond 1/1/38	5.15	6,140
Term bond 7/1/43 (Premium)	3.5	19,925
Premium		615
<b>Series 2014 AB</b>		
Serial bonds 1/1/15 - 7/1/25	.2 - 3.15	22,915
Term bond 7/1/27	3.45	5,280
Term bond 7/1/34 (Premium)	4.0	20,900
Term bond 7/1/44	Variable	27,055
Premium		1,760

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

	Interest Rate	6/30/2015 Balance
<b>Series 2015 A</b>		
Serial bonds 7/1/15 - 7/1/26	.2 - 3.1	\$ 26,995
Term bond 7/1/30	3.375	10,260
Term bond 1/1/38 (Premium)	4.0	16,665
Premium		1,592
<b>Series 2015 BC</b>		
Serial bonds 1/1/16 - 7/1/25	.4 - 3.05	24,700
Term bond 1/1/36 (Premium)	4.0	21,400
Term bond 1/1/46	Variable	17,700
Premium		1,787
		\$ 637,155

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 \$637,155 maturing at various times from January 1, 2016 through January 1, 2046. 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 \$141,440 and \$18,210, respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues.

Pursuant to the Series Resolutions adopted to date under the 1994 and 2009 General Resolutions, the revenues generated by the Program Loans (but not the Program Loans themselves) are pledged to secure the Bonds. The Agency is permitted by terms of the General Resolutions to issue Bonds and to pledge Revenues pursuant to the Series Resolution which exceed the amount required to meet the obligations of that Series of Bonds. In such event, it is likely that any such Series of Bonds would produce excess Revenues which could be available to redeem the related Series of Bonds or any other Series of Bonds prior to the stated maturities thereof.

**Subsequent Event**

The Agency securitized mortgage loans to create mortgage backed securities which were sold for proceeds of \$10,560 subsequent to year end.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2015  
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**NOTE 12 FINANCIAL DERIVATIVE INSTRUMENT**

**Objective of the Interest Rate Swap**

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance<sup>2</sup>, the agency entered into several cash flow hedges or swaps in connection with various variable-rate housing bond series<sup>1</sup>. All Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate<sup>6</sup>. The Agency also has cash flow hedges that were entered into in connection with variable-rate housing bond series that no longer have bonds outstanding as those bonds have been called. The cash flow hedges that are not connected to a specific bond series hedge the risk related to the Agency's other variable-rate housing bonds that are un-hedged.

**Terms**

The bonds and the related swap agreements have a stated issuance<sup>2</sup> and maturity date<sup>3</sup>. Some of the swaps have optional termination dates<sup>15</sup>. Under the swaps, the Agency pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR)<sup>7</sup> plus a fixed percentage<sup>8</sup> on the swap notional amount<sup>4</sup>. On the other hand, the bond's variable-rate<sup>9</sup> coupons are determined by the remarketing agent. If for any reason the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA (Bond Market Association) Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution. The net change in fair value of the individual swaps is presented in the terms table below<sup>14</sup>.

**Credit Risk**

As of June 30, 2015, 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, 2015 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.



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**Fair Value**

Due to the difference in the variable rate indices, the swaps had a net negative fair value<sup>10</sup> of \$8,985 as of June 30, 2015. 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, 2015. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

**Basis Risk**

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate<sup>6</sup> and the synthetic rate<sup>12</sup> as of June 30, 2015. 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, 2015 are as follows:

1	Bond Series	2005 C	2006 A	2008 A	2008 B
2	Issuance Date	9/21/2005	5/4/2006	2/26/2008	2/26/2008
3	Maturity Date	1/1/2036	7/1/2016	1/1/2017	7/1/2038
4	Notional Amount	12,000	30,210	13,700	8,285
5	Variable-rate Bonds	12,000	27,625	13,155	12,735
6	Fixed Rate	3.889%	3.955%	3.198%	4.725%
7	LIBOR Percentage	63.00%	63.00%	63.00%	100.00%
8	Additional Percentage	0.31%	0.31%	0.32%	0.00%
9	Bonds Variable-rate	0.08000%	0.07000%	0.06000%	0.13000%
10	Fair Value	(428)	(1,553)	(702)	(1,053)
11	Percentage of LIBOR	0.31000%	0.31000%	0.32000%	0.00000%
12	Synthetic Rate	3.65900%	3.71500%	2.93800%	4.85500%
13	Actual Synthetic Rate	3.72179%	3.77699%	2.96615%	5.00555%
14	Change in Fair Value	(180)	(691)	(440)	(846)
15	Optional Termination Date	1/1/2016	N/A	N/A	1/1/2020
1	Bond Series	2008 D	2009 B	2014 B	2015 C
2	Issuance Date	8/5/2008	7/30/2009	6/24/2014	10/1/2015
3	Maturity Date	7/1/2039	1/1/2025	7/1/2044	1/1/2046
4	Notional Amount	21,850	34,070	27,055	-
5	Variable-rate Bonds	21,850	47,745	27,055	17,700
6	Fixed Rate	3.919%	3.108%	2.890%	2.486%
7	LIBOR Percentage	63.70%	64.70%	65.80%	66.20%
8	Additional Percentage	0.20%	0.23%	0.17%	0.10%
9	Bonds Variable-rate	0.06000%	0.06000%	0.06000%	0.07730%
10	Fair Value	(2,015)	(1,258)	(1,767)	(209)
11	Percentage of LIBOR	0.20000%	0.23000%	0.17000%	0.10000%
12	Synthetic Rate	3.77900%	2.93800%	2.78000%	2.46330%
13	Actual Synthetic Rate	3.74074%	2.84718%	2.73729%	N/A
14	Change in Fair Value	(1,693)	(200)	(1,356)	(209)
15	Optional Termination Date	1/1/2018	7/1/2016	N/A	7/1/2020

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**Swap Payments and Associated Debt**

Using rates as of June 30, 2015, 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, 2015. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2016	\$ 5,350	\$ 116	\$ 4,970	\$ 10,436
2017	43,650	96	3,782	47,528
2018	2,360	90	3,500	5,950
2019	1,865	89	3,430	5,384
2020	3,925	86	3,340	7,351
2021 - 2025	37,465	373	14,177	52,015
2026 - 2030	3,230	300	12,399	15,929
2031 - 2035	16,090	265	10,840	27,195
2036 - 2040	44,105	149	5,652	49,906
2041 - 2045	20,715	34	1,274	22,023
2046 - 2050	1,110	-	4	1,114
	<u>\$ 179,865</u>	<u>\$ 1,598</u>	<u>\$ 63,368</u>	<u>\$ 244,831</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 year ended June 30, 2015:

Balance July 1, 2014	\$ -
Principal payments on advance from Bank of North Dakota	(52,200)
Loan advance from Bank of North Dakota	<u>62,299</u>
Balance June 30, 2015	<u>\$ 10,099</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2015, 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, 2016. The line of credit bears interest at 1% over the 3 month LIBOR index with a minimum interest rate of 1.75%.

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**NOTE 14 PENSION PLAN**

***North Dakota Public Employees Retirement System (Main System)***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

***Death and Disability Benefits***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member'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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

***Refunds of Member Account Balance***

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 25 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2015, the Employer reported a liability of \$1,604 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2014, the Employer's proportion was 0.252770 percent.

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For the year ended June 30, 2015, the Employer recognized pension expense of \$159. At June 30, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 52	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(313)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>253</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 305</u></b>	<b><u>\$ (313)</u></b>

\$253 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$	(67)
2017		(67)
2018		(67)
2019		(67)
2020		7

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***Actuarial Assumptions***

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

***Discount rate***

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied

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to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate***

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$2,474	\$1,604	\$877

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

***Payables to the pension plan***

No amount was payable to the pension plan at the fiscal year end.

**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.

Commitments to extend credit	<u>\$ 49,241</u>
Loan Acquisition Fund	<u>\$ 30,786</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future



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cash requirements. The amount of collateral obtained, if it is deemed necessary by the Agency, is based on management's credit evaluation of the customer.

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

As of June 30, 2015, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$242.

**NOTE 16 REBATE DUE TO IRS**

A detail of the cumulative rebate at June 30, 2015 is as follows:

Series 07 AB	\$	72
Series 15 A		<u>14</u>
Total	<u>\$</u>	<u>86</u>

A summary of the rebate due to IRS at June 30, 2015 is as follows:

Beginning balance, July 1	\$	75
Additions		14
Reductions		<u>(3)</u>
Ending balance, June 30	<u>\$</u>	<u>86</u>
Amounts due within one year	<u>\$</u>	<u>-</u>

**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.

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**NOTE 18 RISK MANAGEMENT**

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

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

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

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

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

**NOTE 19 OPERATING LEASES**

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

Year ending June 30		
2016	\$	232
2017		220
	\$	452

Total rental expense was \$224 for the year ended June 30, 2015.

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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, 2015, was as follows:

	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
<b>Balance Sheet</b>				
Current assets - other	\$ 17,595	\$ 147,729	\$ (758)	\$ 164,566
Noncurrent assets - other	8,526	654,464	-	662,990
Total assets	<u>26,121</u>	<u>802,193</u>	<u>(758)</u>	<u>827,556</u>
Deferred outflow of resources	<u>305</u>	<u>8,985</u>	<u>-</u>	<u>9,290</u>
Current liabilities - other	12,610	34,961	(758)	46,813
Noncurrent liabilities - other	6,145	631,265	-	637,410
Total liabilities	<u>18,755</u>	<u>666,226</u>	<u>(758)</u>	<u>684,223</u>
Net position - unrestricted	7,358	-	-	7,358
Net position - restricted	-	144,952	-	144,952
Total net position	<u>\$ 7,358</u>	<u>\$ 144,952</u>	<u>\$ -</u>	<u>\$ 152,310</u>
<b>Statement of Revenues, Expenses and Change in Fund Net Position</b>				
<b>Operating revenues</b>				
Mortgage interest income	\$ 630	\$ 27,981	\$ -	\$ 28,611
Investment income	-	2,252	-	2,252
Gain on sale of investments	81	50	-	131
Fee income	7,235	-	(3,828)	3,407
Depreciation	(1)	-	-	(1)
Other operating expenses	(6,735)	(22,628)	3,828	(25,535)
Operating income	<u>1,210</u>	<u>7,655</u>	<u>-</u>	<u>8,865</u>
<b>Nonoperating revenues (expenses)</b>				
Federal grants	11,566	-	-	11,566
Settlement funds	2	-	-	2
Investment income	152	-	-	152
Federal grants	(11,974)	-	-	(11,974)
Transfers	1,899	-	-	1,899
Change in net position	<u>2,855</u>	<u>7,655</u>	<u>-</u>	<u>10,510</u>
Total net position, beginning of year as previously stated	12,102	131,330	-	143,432
GASB 68 adjustment	<u>(1,632)</u>	<u>-</u>	<u>-</u>	<u>(1,632)</u>
Total net position, beginning of year restated	10,470	131,330	-	141,800
Equity transfer in (out)	<u>(5,967)</u>	<u>5,967</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 7,358</u>	<u>\$ 144,952</u>	<u>\$ -</u>	<u>\$ 152,310</u>

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	Agency Operating Funds	Home- ownership Bond Funds	Eliminations	Total Enterprise
Statement of Cash Flows				
Net cash used by operating activities	\$ (2,121)	\$ (4,150)	\$ -	\$ (6,271)
Net cash used for noncapital financing activities	(1,435)	(20,503)	-	(21,938)
Net cash from (used by) investing activities	1,231	(3,790)	-	(2,559)
Change in cash and cash equivalents	(2,325)	(28,443)	-	(30,768)
Cash and cash equivalents, beginning of year	18,473	157,097	-	175,570
Cash and cash equivalents, end of year	<u>\$ 16,148</u>	<u>\$ 128,654</u>	<u>\$ -</u>	<u>\$ 144,802</u>

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

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2015  
(In Thousands)

about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

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

**NOTE 22 GASB 68 ADJUSTMENT**

The Agency adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required a prior period adjustment to record net pension liability and deferred outflows as of July 1, 2014; the cumulative effect of implementing this GASB statement was an increase in net pension liability of \$1,856 and increase in deferred outflows of \$224 on the Statement of Net Position. The adjustments resulted in a net decrease of \$1,632 on the Statement of Revenues, Expenses and Changes in Net Position.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY**  
**JUNE 30, 2015**  
(In Thousands)

**ND Public Employees Retirement System**  
**Last 10 Fiscal Years\***

	2015
Employer's proportion of the net pension liability	00.252770%
Employer's proportionate share of the net pension liability	\$1,604
Employer's covered-employee payroll	\$2,129
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

\*Complete data for this schedule is not available prior to 2015.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**JUNE 30, 2015**  
**(In Thousands)**

**ND Public Employees Retirement System**  
**Last 10 Fiscal Years\***

	<u>2015</u>
Statutorily required contribution	\$152
Contributions in relation to the statutorily required contribution	(\$152)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	\$2,129
Contributions as a percentage of covered-employee payroll	7.12%

\*Complete data for this schedule is not available prior to 2015.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION**  
**JUNE 30, 2015**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
<b>ASSETS</b>							
<b>CURRENT ASSETS - UNRESTRICTED</b>							
Cash and cash equivalents	\$ 3,232	\$ -	\$ -	\$ -	\$ 3,232	\$ -	\$ 3,232
Due from State Agencies	21	-	-	-	21	-	21
Receivables							
Interest							
Loans	15	-	-	-	15	-	15
Investments	121	-	-	-	121	-	121
Due from HUD	170	-	-	-	170	-	170
Other	516	-	-	-	516	(103)	413
Current portion of service release premium	428	-	-	-	428	-	428
Prepaid expenses	24	14	-	14	38	-	38
Total unrestricted current assets	<u>4,527</u>	<u>14</u>	<u>-</u>	<u>14</u>	<u>4,541</u>	<u>(103)</u>	<u>4,438</u>
<b>CURRENT ASSETS - RESTRICTED</b>							
Cash and cash equivalents	12,916	101,976	26,678	128,654	141,570	-	141,570
Receivables							
Current portion of loans receivable	152	12,742	3,149	15,891	16,043	-	16,043
Interest							
Loans	-	1,916	547	2,463	2,463	-	2,463
Investments	-	17	2	19	19	-	19
Other	-	515	173	688	688	(655)	33
Total restricted current assets	<u>13,068</u>	<u>117,166</u>	<u>30,549</u>	<u>147,715</u>	<u>160,783</u>	<u>(655)</u>	<u>160,128</u>
Total current assets	<u>17,595</u>	<u>117,180</u>	<u>30,549</u>	<u>147,729</u>	<u>165,324</u>	<u>(758)</u>	<u>164,566</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>							
Service release premium, net	<u>2,705</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,705</u>	<u>-</u>	<u>2,705</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>							
Loans receivable, net of current portion	5,821	487,969	151,722	639,691	645,512	-	645,512
Investments	-	14,773	-	14,773	14,773	-	14,773
Total restricted noncurrent assets	<u>5,821</u>	<u>502,742</u>	<u>151,722</u>	<u>654,464</u>	<u>660,285</u>	<u>-</u>	<u>660,285</u>
Total noncurrent assets	<u>8,526</u>	<u>502,742</u>	<u>151,722</u>	<u>654,464</u>	<u>662,990</u>	<u>-</u>	<u>662,990</u>
Total assets	<u>26,121</u>	<u>619,922</u>	<u>182,271</u>	<u>802,193</u>	<u>828,314</u>	<u>(758)</u>	<u>827,556</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflow - pension	305	-	-	-	305	-	305
Financial derivative instrument	-	8,985	-	8,985	8,985	-	8,985
Total deferred outflows of resources	<u>305</u>	<u>8,985</u>	<u>-</u>	<u>8,985</u>	<u>9,290</u>	<u>-</u>	<u>9,290</u>



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION - CONTINUED**  
**JUNE 30, 2015**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Due to HUD	\$ 28	\$ -	\$ -	\$ -	\$ 28	\$ -	\$ 28
Due to State Agencies	16	4	-	4	20	-	20
Other	1,057	505	29	534	1,591	(758)	833
Current portion of compensated absences	184	-	-	-	184	-	184
Current portion of bonds payable	-	9,290	5,670	14,960	14,960	-	14,960
Loan from Bank of North Dakota	-	10,099	-	10,099	10,099	-	10,099
Accrued interest	-	6,393	2,971	9,364	9,364	-	9,364
Funds held in trust	11,266	-	-	-	11,266	-	11,266
Grant funds received in advance	59	-	-	-	59	-	59
Total current liabilities	<u>12,610</u>	<u>26,291</u>	<u>8,670</u>	<u>34,961</u>	<u>47,571</u>	<u>(758)</u>	<u>46,813</u>
<b>NONCURRENT LIABILITIES</b>							
Compensated absences, net of current portion	106	-	-	-	106	-	106
Rebate due to IRS, net of current portion	-	86	-	86	86	-	86
Grant funds received in advance	4,435	-	-	-	4,435	-	4,435
Net pension liability	1,604	-	-	-	1,604	-	1,604
Financial derivative instrument	-	8,984	-	8,984	8,984	-	8,984
Bonds payable, net of current portion	-	460,769	161,426	622,195	622,195	-	622,195
Total noncurrent liabilities	<u>6,145</u>	<u>469,839</u>	<u>161,426</u>	<u>631,265</u>	<u>637,410</u>	<u>-</u>	<u>637,410</u>
Total liabilities	<u>18,755</u>	<u>496,130</u>	<u>170,096</u>	<u>666,226</u>	<u>684,981</u>	<u>(758)</u>	<u>684,223</u>
<b>DEFERRED INFLOW OF RESOURCES</b>							
Deferred inflow - pension	313	-	-	-	313	-	313
<b>NET POSITION</b>							
Restricted for debt service	-	132,777	12,175	144,952	144,952	-	144,952
Unrestricted	7,358	-	-	-	7,358	-	7,358
Total net position	<u>\$ 7,358</u>	<u>\$ 132,777</u>	<u>\$ 12,175</u>	<u>\$ 144,952</u>	<u>\$ 152,310</u>	<u>\$ -</u>	<u>\$ 152,310</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2015**  
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
<b>OPERATING REVENUES</b>							
Mortgage interest income	\$ 630	\$ 21,108	\$ 6,873	\$ 27,981	\$ 28,611	\$ -	\$ 28,611
Investment income	-	1,735	517	2,252	2,252	-	2,252
Gain on sale of investments	81	50	-	50	131	-	131
Fee income	7,235	-	-	-	7,235	(3,828)	3,407
Total revenues	<u>7,946</u>	<u>22,893</u>	<u>7,390</u>	<u>30,283</u>	<u>38,229</u>	<u>(3,828)</u>	<u>34,401</u>
<b>OPERATING EXPENSES</b>							
Interest expense	93	11,532	6,225	17,757	17,850	-	17,850
Agency grants	522	-	-	-	522	-	522
Administrative and operating expenses	2,871	4,064	807	4,871	7,742	(3,828)	3,914
Salaries and benefits	3,090	-	-	-	3,090	-	3,090
Pension expense	159	-	-	-	159	-	159
Depreciation	1	-	-	-	1	-	1
Total expenses	<u>6,736</u>	<u>15,596</u>	<u>7,032</u>	<u>22,628</u>	<u>29,364</u>	<u>(3,828)</u>	<u>25,536</u>
<b>OPERATING INCOME</b>	<u>1,210</u>	<u>7,297</u>	<u>358</u>	<u>7,655</u>	<u>8,865</u>	<u>-</u>	<u>8,865</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>							
Federal grants	11,566	-	-	-	11,566	-	11,566
Miscellaneous revenue	2	-	-	-	2	-	2
Investment income	152	-	-	-	152	-	152
Federal grants	(11,974)	-	-	-	(11,974)	-	(11,974)
Total nonoperating revenues (expenses)	<u>(254)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(254)</u>	<u>-</u>	<u>(254)</u>
<b>CHANGE IN ASSETS BEFORE TRANSFERS</b>	<u>956</u>	<u>7,297</u>	<u>358</u>	<u>7,655</u>	<u>8,611</u>	<u>-</u>	<u>8,611</u>
<b>TRANSFERS</b>							
Transfer in from Department of Commerce	435	-	-	-	435	-	435
Transfer in from Adjutant General	1,494	-	-	-	1,494	-	1,494
Transfer to Industrial Commission	(30)	-	-	-	(30)	-	(30)
<b>CHANGE IN NET POSITION</b>	<u>2,855</u>	<u>7,297</u>	<u>358</u>	<u>7,655</u>	<u>10,510</u>	<u>-</u>	<u>10,510</u>
<b>TOTAL NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED</b>	<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>
<b>GASB 68 ADJUSTMENT</b>	<u>(1,632)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,632)</u>	<u>-</u>	<u>(1,632)</u>
<b>TOTAL NET POSITION, BEGINNING OF YEAR, RESTATE</b>	<u>10,470</u>	<u>119,518</u>	<u>11,812</u>	<u>131,330</u>	<u>141,800</u>	<u>-</u>	<u>141,800</u>
<b>EQUITY TRANSFER IN (OUT)</b>	<u>(5,967)</u>	<u>5,962</u>	<u>5</u>	<u>5,967</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 7,358</u>	<u>\$ 132,777</u>	<u>\$ 12,175</u>	<u>\$ 144,952</u>	<u>\$ 152,310</u>	<u>\$ -</u>	<u>\$ 152,310</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2015**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
<b>OPERATING ACTIVITIES</b>							
Receipts from customers	\$ 6,629	\$ 95,510	\$ 47,120	\$ 142,630	\$ 149,259	\$ (5,105)	\$ 144,154
Proceeds from sale of loans receivable	3,275	2,068	-	2,068	5,343	-	5,343
Interfund mortgages loan purchases and sales	50,550	(50,550)	-	(50,550)	-	-	-
Grant funds received in advance	81	-	-	-	81	-	81
Payment of grants	(579)	-	-	-	(579)	-	(579)
Payments to service providers							
State agencies	(242)	4	-	4	(238)	-	(238)
Mortgage loan purchases	(54,043)	(92,218)	-	(92,218)	(146,261)	-	(146,261)
Other	(4,546)	(5,345)	(739)	(6,084)	(10,630)	5,105	(5,525)
Payments to employees	(3,246)	-	-	-	(3,246)	-	(3,246)
Net cash provided by (used for) operating activities	(2,121)	(50,531)	46,381	(4,150)	(6,271)	-	(6,271)
<b>NONCAPITAL FINANCING ACTIVITIES</b>							
Principal payments on loan from Bank of ND	(47,146)	(5,054)	-	(5,054)	(52,200)	-	(52,200)
Principal payments on bonds payable	-	(96,470)	(39,915)	(136,385)	(136,385)	-	(136,385)
Proceeds from loan borrowings from Bank of ND	47,146	15,153	-	15,153	62,299	-	62,299
Proceeds from bond issuance	-	121,158	-	121,158	121,158	-	121,158
Interest paid on loans and bonds	(93)	(11,263)	(6,947)	(18,210)	(18,303)	-	(18,303)
LEPP funds	2	-	-	-	2	-	2
Proceeds from federal grants	11,566	-	-	-	11,566	-	11,566
Payment of federal grants	(11,974)	-	-	-	(11,974)	-	(11,974)
Transfers from Department of Commerce	435	-	-	-	435	-	435
Transfers from Adjutant General	1,494	-	-	-	1,494	-	1,494
Transfers to Industrial Commission	(30)	-	-	-	(30)	-	(30)
Interfund transfer in (out)	(2,835)	2,499	336	2,835	-	-	-
Net cash provided by (used for) noncapital financing activities	\$ (1,435)	\$ 26,023	\$ (46,526)	\$ (20,503)	\$ (21,938)	\$ -	\$ (21,938)

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2015**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
INVESTING ACTIVITIES							
Purchase of investments	\$ -	\$ (3,920)	\$ -	\$ (3,920)	\$ (3,920)	\$ -	\$ (3,920)
Proceeds from sale of investments	370	130	-	130	500	-	500
Interest received from investments	861	-	-	-	861	-	861
Net cash provided by (used for) investing activities	<u>1,231</u>	<u>(3,790)</u>	<u>-</u>	<u>(3,790)</u>	<u>(2,559)</u>	<u>-</u>	<u>(2,559)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,325)	(28,298)	(145)	(28,443)	(30,768)	-	(30,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>18,473</u>	<u>130,274</u>	<u>26,823</u>	<u>157,097</u>	<u>175,570</u>	<u>-</u>	<u>175,570</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 16,148</u>	<u>\$ 101,976</u>	<u>\$ 26,678</u>	<u>\$ 128,654</u>	<u>\$ 144,802</u>	<u>\$ -</u>	<u>\$ 144,802</u>
Cash and Cash Equivalents - Unrestricted	\$ 3,232	\$ -	\$ -	\$ -	\$ 3,232	\$ -	\$ 3,232
Cash and Cash Equivalents - Restricted	12,916	101,976	26,678	128,654	141,570	-	141,570
	<u>\$ 16,148</u>	<u>\$ 101,976</u>	<u>\$ 26,678</u>	<u>\$ 128,654</u>	<u>\$ 144,802</u>	<u>\$ -</u>	<u>\$ 144,802</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2015**

	Agency Operating Funds	Homeownership Bond Funds		Home- ownership Bond Funds	Total	Elimination	Total
		1994 General Resolution	2009 General Resolution				
RECONCILIATION OF OPERATING							
INCOME TO NET CASH PROVIDED							
BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss)	\$ 1,210	\$ 7,297	\$ 358	\$ 7,655	\$ 8,865	\$ -	\$ 8,865
Adjustments to reconcile operating income							
to net cash from operating activities:							
Depreciation	1	-	-	-	1	-	1
Amortization							
Original issue discounts and premiums	-	(1,312)	(265)	(1,577)	(1,577)	-	(1,577)
Service release premiums	817	-	-	-	817	-	817
Reclassification of interest							
expense to other activates	93	11,521	6,225	17,746	17,839	-	17,839
Deferred outflow - pension	(76)	-	-	-	(76)	-	(76)
Deferred inflows - pension	313	-	-	-	313	-	313
Changes in assets and liabilities:							
Decrease in due from HUD	(25)	-	-	-	(25)	-	(25)
(Increase) decrease in due from State Agencies	5	-	-	-	5	-	5
(Increase) decrease in other receivables	145	782	432	1,214	1,359	(1,277)	82
(Increase) decrease in service release premium	(1,014)	-	-	-	(1,014)	-	(1,014)
(Increase) decrease in prepaid expenses	17	-	-	-	17	-	17
(Increase) decrease in loan interest receivable	5	(165)	117	(48)	(43)	-	(43)
(Increase) decrease in loans receivable	(2,765)	(68,712)	39,181	(29,531)	(32,296)	-	(32,296)
Increase (decrease) in due to HUD	(32)	-	-	-	(32)	-	(32)
Increase (decrease) in due to State Agencies	-	4	-	4	4	-	4
Increase (decrease) in rebate due to IRS	-	12	-	12	12	-	12
Increase (decrease) in other liabilities	(1,726)	42	333	375	(1,351)	1,277	(74)
Increase (decrease) in compensated absences	9	-	-	-	9	-	9
Increase (decrease) funds held in trust	1,072	-	-	-	1,072	-	1,072
Increase (decrease) net pension liability	(251)	-	-	-	(251)	-	(251)
Increase (decrease) grant funds received in advance	81	-	-	-	81	-	81
Net cash provided by (used for) operating activities	<u>\$ (2,121)</u>	<u>\$ (50,531)</u>	<u>\$ 46,381</u>	<u>\$ (4,150)</u>	<u>\$ (6,271)</u>	<u>\$ -</u>	<u>\$ (6,271)</u>
Non-cash disclosures:							
Increase (decrease) in fair value of investments	<u>\$ (708)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (708)</u>	<u>\$ -</u>	<u>\$ (708)</u>
Fair value transfers	<u>\$ (708)</u>	<u>\$ 708</u>	<u>\$ -</u>	<u>\$ 708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment transfers	<u>\$ (371)</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfers associated with pledged loans	<u>\$ 3,091</u>	<u>\$ (3,762)</u>	<u>\$ 671</u>	<u>\$ (3,091)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Administration and Service Fees Adjustment	<u>\$ 1,118</u>	<u>\$ (778)</u>	<u>\$ (340)</u>	<u>\$ (1,118)</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, 2015**

Line Item #	Description	Rent Supplements - Rental Housing for Lower Income Families	Section 8	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income
			Moderate Rehabilitation Single Room Occupancy	Housing Assistance Program_Section 8 Moderate Rehabilitate ND901MR0001	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0003	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0004	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0005	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0006	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0008	Housing Assistance Program_Section 8 Moderate Rehabilitat ND901MR0009	
<b>Assets</b>											
111	Cash - Unrestricted	\$ 377,142	\$ 25,382	\$ 48,169	\$ 21,119	\$ 9,555	\$ 20,268	\$ 95,373	\$ 13,760	\$ 40,658	
113	Cash - Other Restricted	2	-	-	-	-	-	-	-	-	
115	Cash - Restricted for payment of current liability	39,832	491	-	-	-	-	27,547	-	-	
<b>100</b>	<b>Total Cash</b>	<b>416,976</b>	<b>25,873</b>	<b>48,169</b>	<b>21,119</b>	<b>9,555</b>	<b>20,268</b>	<b>122,920</b>	<b>13,760</b>	<b>40,658</b>	
122	Accounts Receivable - HUD Other Projects	140,879	-	10,843	2,988	5,550	768	-	1,161	6,309	
125	Accounts Receivable - Miscellaneous	150	28	117	69	37	48	127	34	103	
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-	-	-	
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-	-	
<b>120</b>	<b>Total Receivables, net of allowances for doubtful</b>	<b>141,029</b>	<b>28</b>	<b>10,960</b>	<b>3,057</b>	<b>5,587</b>	<b>816</b>	<b>127</b>	<b>1,195</b>	<b>6,412</b>	
142	Prepaid Expenses and Other Assets	8,427	4	14	8	5	6	16	4	13	
<b>150</b>	<b>Total Current Assets</b>	<b>566,432</b>	<b>25,905</b>	<b>59,143</b>	<b>24,184</b>	<b>15,147</b>	<b>21,090</b>	<b>123,063</b>	<b>14,959</b>	<b>47,083</b>	
<b>Total Fixed Assets, Net of Accumulated Depreciation</b>											
<b>160</b>	<b>Total Fixed Assets, Net of Accumulated Depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>180</b>	<b>Total Non-Current Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>190</b>	<b>Total Assets</b>	<b>\$ 566,432</b>	<b>\$ 25,905</b>	<b>\$ 59,143</b>	<b>\$ 24,184</b>	<b>\$ 15,147</b>	<b>\$ 21,090</b>	<b>\$ 123,063</b>	<b>\$ 14,959</b>	<b>\$ 47,083</b>	
<b>Liabilities and Equity</b>											
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
312	Accounts Payable <= 90 Days	41,802	24	100	59	32	42	110	29	88	
331	Accounts Payable - HUD PHA Programs	2	491	-	-	-	-	27,547	-	-	
<b>310</b>	<b>Total Current Liabilities</b>	<b>41,804</b>	<b>515</b>	<b>100</b>	<b>59</b>	<b>32</b>	<b>42</b>	<b>27,657</b>	<b>29</b>	<b>88</b>	
<b>350</b>	<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>300</b>	<b>Total Liabilities</b>	<b>41,804</b>	<b>515</b>	<b>100</b>	<b>59</b>	<b>32</b>	<b>42</b>	<b>27,657</b>	<b>29</b>	<b>88</b>	
508	Total Contributed Capital	-	-	-	-	-	-	-	-	-	
508.4	Net Investment in Capital Assets	-	-	-	-	-	-	-	-	-	
509.2	Fund Balance Reserved	-	-	-	-	-	-	-	-	-	
511.4	Restricted Net Position	39,834	491	-	-	-	-	27,547	-	-	
512.4	Unrestricted Net Position	484,794	24,899	59,043	24,125	15,115	21,048	67,859	14,930	46,995	
<b>513</b>	<b>Total Equity/Net Assets</b>	<b>524,628</b>	<b>25,390</b>	<b>59,043</b>	<b>24,125</b>	<b>15,115</b>	<b>21,048</b>	<b>95,406</b>	<b>14,930</b>	<b>46,995</b>	
<b>600</b>	<b>Total Liabilities and Equity/Net Assets</b>	<b>\$ 566,432</b>	<b>\$ 25,905</b>	<b>\$ 59,143</b>	<b>\$ 24,184</b>	<b>\$ 15,147</b>	<b>\$ 21,090</b>	<b>\$ 123,063</b>	<b>\$ 14,959</b>	<b>\$ 47,083</b>	

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2015**

Line Item #	Description	Lower Income Housing Assistance									
		Rent Supplements - Rental Housing for Lower Income Families	Section 8 Moderate Rehabilitation Single Room Occupancy	Program_Section 8 Moderate Rehabilitate ND901MR0001	Program_Section 8 Moderate Rehabilitat ND901MR0003	Program_Section 8 Moderate Rehabilitat ND901MR0004	Program_Section 8 Moderate Rehabilitat ND901MR0005	Program_Section 8 Moderate Rehabilitat ND901MR0006	Program_Section 8 Moderate Rehabilitat ND901MR0008	Program_Section 8 Moderate Rehabilitat ND901MR0009	Program_Section 8 Moderate Rehabilitat ND901MR0009
<b>Revenue</b>											
70500	Total Tenant Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70600	HUD PHA Operating Grants	11,657,400	26,150	160,399	69,089	68,333	87,297	125,023	46,049	109,298	
71100	Investment Income - Unrestricted	-	6	25	15	8	10	27	7	22	
72000	Investment Income - Restricted	131	1	6	3	2	2	6	2	5	
<b>700</b>	<b>Total Revenue</b>	<b>11,657,531</b>	<b>26,157</b>	<b>160,430</b>	<b>69,107</b>	<b>68,343</b>	<b>87,309</b>	<b>125,056</b>	<b>46,058</b>	<b>109,325</b>	
<b>Expenses</b>											
91100	Administrative Salaries	302,354	2,922	11,978	7,012	3,798	4,966	13,001	3,506	10,518	
91200	Auditing Fees	6,251	82	335	196	106	139	364	98	294	
91500	Employee Benefit Contribution - Administrative	117,252	1,280	5,247	3,071	1,664	2,176	5,695	1,536	4,607	
91600	Office Expense	57,279	831	3,407	1,994	1,080	1,413	3,698	996	2,993	
91800	Travel	19,154	89	365	215	115	152	396	107	321	
91900	Other	85,187	2,411	9,887	5,787	3,136	4,099	10,731	2,894	8,681	
<b>96900</b>	<b>Total Operating Expenses</b>	<b>587,477</b>	<b>7,615</b>	<b>31,219</b>	<b>18,275</b>	<b>9,899</b>	<b>12,945</b>	<b>33,885</b>	<b>9,137</b>	<b>27,414</b>	
<b>97000</b>	<b>Excess Operating Revenue over Operating Expenses</b>	<b>11,070,054</b>	<b>18,542</b>	<b>129,211</b>	<b>50,832</b>	<b>58,444</b>	<b>74,364</b>	<b>91,171</b>	<b>36,921</b>	<b>81,911</b>	
97300	Housing Assistance Payments	10,916,332	18,129	127,855	50,766	57,715	73,411	91,254	36,249	79,827	
<b>90000</b>	<b>Total Expenses</b>	<b>11,503,809</b>	<b>25,744</b>	<b>159,074</b>	<b>69,041</b>	<b>67,614</b>	<b>86,356</b>	<b>125,139</b>	<b>45,386</b>	<b>107,241</b>	
10100	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-	-	
<b>10000</b>	<b>Excess (Deficiency) of Operating Revenue Over (Under) Expenses</b>	<b>153,722</b>	<b>413</b>	<b>1,356</b>	<b>66</b>	<b>729</b>	<b>953</b>	<b>(83)</b>	<b>672</b>	<b>2,084</b>	
<b>Memo Account Information</b>											
11020	Debt Principal Payments - Enterprise Funds	-	-	-	-	-	-	-	-	-	
11030	Beginning Equity	370,906	24,611	58,052	25,331	14,211	19,866	99,361	14,076	44,363	
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	366	(365)	(1,272)	175	229	(3,872)	182	548	
11130	Maximum Annual Contributions Commitment (per ACC)	12,068,195	-	234,360	87,469	82,448	119,856	260,616	59,220	127,933	
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-	-	-	-	-	
11150	Contingency Reserve, ACC Program Reserve	6,255,929	66,881	59,370	103,550	43,268	19,371	114,723	13,604	78,448	
<b>11160</b>	<b>Total Annual Contributions Available</b>	<b>18,324,124</b>	<b>66,881</b>	<b>293,730</b>	<b>191,019</b>	<b>125,716</b>	<b>139,227</b>	<b>375,339</b>	<b>72,824</b>	<b>206,381</b>	
11200	Unit Months Available	37,777	120	492	288	156	204	534	144	432	
11210	Number of Unit Months Leased	37,777	120	442	222	129	189	415	138	375	

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**ADJUSTED NET WORTH CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period	<u>\$ 152,310</u>
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Less:

Itemized unacceptable assets	
1. Due from state agencies	\$ (21)
2.	\$ -
3.	\$ -
Total unacceptable assets	<u>\$ (21)</u>

Adjusted net worth	<u><u>\$ 152,289</u></u>
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B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 16)	<u>\$ 123,511</u>
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Plus:

Outstanding balance of commitment authority issued and requested	<u>\$ 15,157</u>
--	------------------

Total outstanding portfolio and authority	<u>\$ 138,668</u>
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Required net worth	<u><u>\$ 1,387</u></u>
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C. Excess (deficit) net worth

(Adjusted net worth - required net worth)	<u><u>\$ 150,902</u></u>
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**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**INSURANCE COVERAGE SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

A. Identification of affiliated Ginnie Mae issuers

Affiliated Ginnie Mae issuers (Issuer name and Ginnie Mae issuer identification code)	None
--	------

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

B. Required insurance calculation

Servicing portfolio	
Ginnie Mae	\$ 123,511
Fannie Mae	552
Freddie Mac	-
Conventional (other)	656,300

Total servicing portfolio	780,363
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Required fidelity bond coverage	1,275
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Required mortgage servicing errors and omissions coverage	1,275
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C. Verification of insurance coverage

Fidelity bond coverage at end of reporting period	2,000
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Mortgage servicing errors and omissions coverage at end of reporting period	2,000
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D. Excess (deficit) insurance coverage

Fidelity bond coverage	725
------------------------	-----

Required servicing errors and omissions coverage	725
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E. Ginnie Mae loss payable endorsement

Fidelity bond coverage	Yes
------------------------	-----

Mortgage servicing errors and omissions coverage	Yes
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**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**CAPITAL REQUIREMENT CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(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>\$ -</u>	<u>N/A</u>

**B. Capital requirement for nodepository institutions**

Total adjusted net worth	\$ 152,289	
Total assets	<u>\$ 827,556</u>	
		<u>Meets</u>
Total adjusted net worth / total assets	<u>18.40%</u>	<u>yes</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**LIQUID ASSET REQUIREMENT CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

A. Liquid asset calculation

Required net worth (from adjusted net worth calculation, page 52)		<u>\$ 1,387</u>
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Acceptable liquid assets

1. Cash and cash equivalents	<u>\$ 144,802</u>	
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Total liquid assets		<u>\$ 144,802</u>
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B. Required liquid asset

		<u>Meets Requirement?</u>
Excess (deficit) liquid (Total liquid assets / required net worth)	<u>10440%</u>	<u>yes</u>

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/Federal Agency /Pass through Agency/Program</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Number</b>	<b>Expenditures</b>
<u>Department of Agriculture</u>			
Rural Housing Service Division			
Very Low to Moderate Income Housing Loans	10.410		\$ 22,284,794
<u>Department of Housing and Urban Development</u>			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117		62,871,324
Rent Supplements - Rental Housing for Lower Income Families	14.149		11,503,809
Housing Counseling Assistance Program	14.169		120,046
Lower Income Housing Assistance Program -			
Section 8 Moderate Rehabilitation	14.856 A		659,851
Section 8 Moderate Rehabilitation - Single room occupancy	14.249 A		25,744
Community Development Block Grants	14.228 B		113,378
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	252,157
Pass through from ND Department of Commerce			
Community Development Block Grants	14.228 B	2409-NSP09	166,332
Total Department of Housing and Urban Development			75,712,640
<u>Department of Veterans Affairs</u>			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114		4,826,530
TOTAL			\$ 102,823,965

A Section 8 Project-Based Cluster total \$685,595.

B Community Development Block Grants CFDA #14.228 total \$279,710.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**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, 2015.

Very Low to Moderate Income Housing Loans	10.410	\$ 136,439,726
Mortgage Insurance - Homes	14.117	391,767,598
Veterans Housing - Guaranteed and Insured Loans	64.114	31,663,782

**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	\$ 265,074
Housing Counseling Assistance Program	14.169	114,104



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.**

As described in Note 1 to the financial statements, North Dakota Housing Finance Agency changed accounting policies related to the pension by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- 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 14, 2015





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, 2015, 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 14, 2015.

**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.

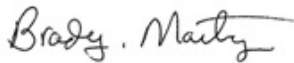
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 14, 2015



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR 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, 2015. 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, 2015.

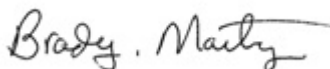
### **Report on Internal Control Over Compliance**

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 14, 2015

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2015**

**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:	<u>Unmodified</u>		
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	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.410	Very Low to Moderate Income Housing Loans
14.149	Rent Supplements – Rental Housing for Lower Income Families

Dollar threshold used to distinguish between Type A and Type B programs:	<u>      \$385,240      </u>
Auditee qualified as a low-risk auditee?	<u>  x  </u> yes <u>      </u> no

**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, 2015**

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



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

October 14, 2015

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, 2015. 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 the pension by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 14, 2015.

#### *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

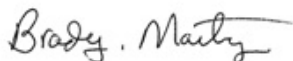
We applied certain limited procedures to the management' discussion and analysis, schedule of employer's share of net pension liability and schedule of employer contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statement of net position, combining statement of revenues, expenses and changes in fund net position, combining statement of cash flows, Housing and Urban Development – Section 8 Financial Data Schedule, adjusted net worth calculation, insurance coverage schedule, capital requirement calculation, liquid asset requirement calculation, schedule of expenditures of federal awards, notes to the schedule of expenditures of federal awards and comments requested by the Legislative Audit and Fiscal Review Committee, which accompany the financial statements but are not RSI. 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.

### Restrictions on Use

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,



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

Bismarck, North Dakota