

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor Doug Burgum
The Legislative Assembly
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota Housing Finance Agency, a department of the State of North Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net financial position of the business-type activities of the North Dakota Housing Finance Agency, as of June 30, 2017 and 2016, and its revenues, expenses and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of 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, 2017 and 2016, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Housing Finance Agency's basic financial statements. The combining financial statements shown on pages 54 to 59 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 60 and 61 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 64 to 67 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying supplementary information on pages 54 through 67 and the schedule of expenditures of federal awards and related notes 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 Statements of Net Position, Combining Statements of Revenues, Expenses and Changes in Fund Net Position, Combining Statements 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 and the Schedule of Expenditures of Federal Awards and related notes 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 12, 2017 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 12, 2017

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Housing Finance Agency (Agency) that follows is meant to provide additional insight into the Agency's activities for the years ended June 30, 2017 and 2016. 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 FY2017, mortgage loans receivable increased \$90,433 to \$846,200. This is a net change of \$301,314 in loans purchased, \$166,208 of repaid principal, \$47,376 of loans securitized into an MBS, an increase in loan premiums of \$2,642 and a decrease in mortgage loan loss reserve of \$61.

In FY2016, mortgage loans receivable increased \$94,212 to \$755,767. This is a net change of \$206,570 in loans purchased, \$97,920 of repaid principal, \$17,924 of loans securitized into an MBS, an increase in loan premiums/discounts of \$3,468 and a decrease in mortgage loan loss reserve of \$82.

In FY 2017, Bonds Payable decreased \$11,524 to \$786,208 with \$234,570 new bonds issued, \$249,400 bonds being called or maturing and a \$3,306 net increase in bond premiums and discounts. See Note 12 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

Bonds Payable increased \$160,577 to \$797,732 with \$257,830 new bonds issued, \$102,480 bonds being called or maturing and a \$5,228 net increase in bond premiums and discounts. See Note 12 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

The loan from Bank of North Dakota decreased \$13,440 to \$0 in FY2017. \$113,911 of new loans were obtained and \$127,351 of principal payments were made in FY2017.

The loan from Bank of North Dakota increase \$3,341 to \$13,440 in FY2016. \$100,766 of new loans were obtained and \$97,425 of principal payments were made in FY2016.

The Agency's FY2017 net position of \$170,534 is an increase of \$9,802 as a result of the year's program operations and financing activities.

The Agency's FY2016 net position of \$160,732 is an increase of \$8,422 as a result of the year's program operations and financing activities.

FY2017 Income Before Transfers of \$9,884 was up \$1,634 from the prior year as a result of increased mortgage interest income and increased gain on sale of investments. The increase was offset partially by higher agency grant expenses.

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

FY2016 Income Before Transfers of \$8,248 was down \$361 from the prior year as a result of increased interest expense and increased administrative and operating expenses offset by higher Interest Income and increased Mortgage Interest Income.

Operating revenues in FY2017 of \$38,003 were up \$1,695 as a result of higher mortgage interest income and gain on sale of investments. The Agency continued to securitize and sell Ginnie Mae eligible mortgage loans into mortgage backed securities realizing gains on the sale.

Operating revenues in FY2016 of \$36,308 were up \$1,907 as a result of higher mortgage and investment interest income.

FY2017 operating expenses of \$28,185 were up \$199 from FY2016 due to higher pension expense and agency grant expense offset by higher administrative and operating expenses.

FY2016 operating expenses of \$27,986 were up \$2,450 from FY2015 due to higher interest expense and higher administrative and operating expenses.

In FY2016, the Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This implementation required no adjustment to prior periods, however it expanded the disclosure requirements for items carried at fair value.

Overview of the Financial Statements

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

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

Condensed Statements of Net Position
June 30, 2017, 2016 and 2015
(In Thousands)

	2017	2016	2015	Change	Percentage
ASSETS					
Unrestricted current assets	\$ 6,261	\$ 5,459	\$ 4,438	\$ 802	15 %
Restricted current assets	146,734	245,050	160,128	(98,316)	(40)
Total current assets	<u>152,995</u>	<u>250,509</u>	<u>164,566</u>	<u>(97,514)</u>	<u>(39)</u>
Unrestricted noncurrent assets	3,728	3,169	2,705	559	18
Restricted noncurrent assets	830,338	747,439	660,285	82,899	11
Total noncurrent assets	<u>834,066</u>	<u>750,608</u>	<u>662,990</u>	<u>83,458</u>	<u>11</u>
Total assets	<u>\$ 987,061</u>	<u>\$ 1,001,117</u>	<u>\$ 827,556</u>	<u>\$ (14,056)</u>	<u>(1) %</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total deferred outflows of resources	<u>\$ 4,513</u>	<u>\$ 7,846</u>	<u>\$ 9,290</u>	<u>\$ (3,333)</u>	<u>(42) %</u>
LIABILITIES					
Current liabilities	\$ 50,444	\$ 64,999	\$ 46,813	\$ (14,555)	(22) %
Noncurrent liabilities	770,346	782,990	637,410	(12,644)	(2)
Total liabilities	<u>\$ 820,790</u>	<u>\$ 847,989</u>	<u>\$ 684,223</u>	<u>\$ (27,199)</u>	<u>(3) %</u>
DEFERRED INFLOWS OF RESOURCES					
Total deferred inflows of resources	<u>\$ 250</u>	<u>\$ 242</u>	<u>\$ 313</u>	<u>\$ 8</u>	<u>3 %</u>
NET POSITION					
Invested in capital assets	\$ 15	\$ -	\$ -	\$ 15	- %
Restricted for debt service	163,049	153,199	144,952	9,850	6
Unrestricted	7,470	7,533	7,358	(63)	(1)
Total net position	<u>\$ 170,534</u>	<u>\$ 160,732</u>	<u>\$ 152,310</u>	<u>\$ 9,802</u>	<u>6 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017, 2016 and 2015
(In Thousands)

	2017	2016	2015	Change	Percentage
OPERATING REVENUES					
Mortgage interest income	\$ 30,512	\$ 29,605	\$ 28,611	\$ 907	3 %
Investment income	2,883	2,614	2,252	269	10
Gain on sale of investment	1,098	420	131	678	161
Fee income	3,510	3,669	3,407	(159)	(4)
Total revenues	<u>38,003</u>	<u>36,308</u>	<u>34,401</u>	<u>1,695</u>	<u>5 %</u>
OPERATING EXPENSES					
Interest expense	18,213	18,375	17,850	(162)	(1) %
Agency grants	1,284	786	522	498	63
Administrative and operating expenses	4,931	5,415	3,914	(484)	(9)
Salaries and benefits	3,480	3,264	3,090	216	7
Pension expense	275	146	159	129	88
Depreciation	2	-	1	2	-
Total expenses	<u>28,185</u>	<u>27,986</u>	<u>25,536</u>	<u>199</u>	<u>1 %</u>
OPERATING INCOME	<u>9,818</u>	<u>8,322</u>	<u>8,865</u>	<u>1,496</u>	<u>18 %</u>
NONOPERATING REVENUES (EXPENSES)					
Federal grants	12,801	12,066	11,566	735	6 %
Miscellaneous revenue	-	-	2	-	-
Investment income	66	127	152	(61)	(48)
Federal grants	(12,801)	(12,265)	(11,974)	(536)	4
	<u>66</u>	<u>(72)</u>	<u>(254)</u>	<u>138</u>	<u>(192) %</u>
INCOME BEFORE TRANSFERS	<u>9,884</u>	<u>8,250</u>	<u>8,611</u>	<u>1,634</u>	<u>20 %</u>
TRANSFERS					
Transfers from Dept. of Commerce	-	211	435	(211)	(100)
Transfer in from Adjutant General	(43)	-	1,494	(43)	-
Transfers to Industrial Commission	(39)	(39)	(30)	-	-
CHANGE IN NET POSITION	<u>9,802</u>	<u>8,422</u>	<u>10,510</u>	<u>1,380</u>	<u>16 %</u>
TOTAL NET POSITION, BEGINNING OF THE YEAR	<u>160,732</u>	<u>152,310</u>	<u>141,800</u>	<u>8,422</u>	<u>6</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 170,534</u>	<u>\$ 160,732</u>	<u>\$ 152,310</u>	<u>\$ 9,802</u>	<u>6 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

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.

FY2017 Operating interest income of \$2,883 was up from the prior year as a result of larger amounts invested throughout the year with regards to bond funds. Rates on new investment contracts continue to be quite low, however they have risen slightly from the past couple years.

FY2016 Operating interest income of \$2,614 was up from the prior year as a result of larger amounts invested throughout the year with regards to bond funds. Rates on new investment contracts continue to be quite low.

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 FY2017 Non-Operating Interest Income of \$66 was down \$61 as a result of additional Treasury and FNMA Investments maturing and/or losing market value. The FY2016 Non-Operating Interest Income was down \$25 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 taxable and tax-exempt 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.

The activity in the oil fields of the western part of North Dakota has caused a certain amount of concern regarding housing. The actual production of oil is continuing to be very high, some over 1 million barrels a day. This translates into needing more permanent employees than was necessary when the oil boom was taking place around Williston. At that time, North Dakota had large numbers of temporary employees working on the drilling rigs, etc. The Agency anticipates that the need for 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. The home prices in the western part of the state have stabilized somewhat allowing more North Dakota families the opportunity to own homes. North Dakota is fortunate to have the economic impact from the oil industry, however it is also an agricultural, manufacturing and energy producing state. This contributes to its economic well-being including the need for affordable housing statewide.

NDHFA continues to expand the ROOTS program allowing a larger number of families to enjoy the benefits of North Dakota Housing Finance Agency's affordable rates. The ROOTS program continues to grow which should counter against any potential downturn in the First Time Home Buyer program. Currently, both programs are being utilized at a high level.

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

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
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 4,998	\$ 4,181
Due from State Agencies	1	3
Receivables		
Interest		
Loans	30	20
Investments	28	54
Due from HUD	132	145
Other	465	518
Current portion of service release premium	548	481
Prepaid expenses	59	57
Total unrestricted current assets	6,261	5,459
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	123,222	215,253
Investments	-	9,018
Receivables		
Current portion of loans receivable	20,452	17,915
Interest		
Loans	2,835	2,750
Investments	225	81
Other	-	33
Total restricted current assets	146,734	245,050
Total current assets	152,995	250,509
NONCURRENT ASSETS - UNRESTRICTED		
Service release premium, net	3,713	3,169
Equipment, net	15	-
Total unrestricted noncurrent assets	3,728	3,169
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	825,748	737,852
Investments	4,590	9,587
Total restricted noncurrent assets	830,338	747,439
Total noncurrent assets	834,066	750,608
Total assets	987,061	1,001,117
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow - pension	736	213
Financial derivative instrument	3,777	7,633
Total deferred outflows of resources	4,513	7,846

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	\$ 14	\$ 18
Due to state agencies	9	31
Other	642	776
Current portion of compensated absences	202	178
Current portion of bonds payable	27,691	28,560
Loan from Bank of North Dakota	-	13,440
Accrued interest	10,165	9,939
Funds held in trust	12,852	11,938
Grant funds received in advance	95	97
Deferred credits	-	22
Total current liabilities	51,670	64,999
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	138	141
Rebate due to IRS	102	13
Grant funds received in advance	4,317	4,376
Net pension liability	2,269	1,655
Financial derivative instrument	3,777	7,633
Bonds payable, net of current portion	758,517	769,172
Total noncurrent liabilities	769,120	782,990
Total liabilities	820,790	847,989
DEFERRED INFLOW OF RESOURCES		
Deferred inflow - pension	250	242
NET POSITION		
Net investment in capital assets	15	-
Restricted for debt service	163,049	153,199
Unrestricted	7,470	7,533
Total net position	\$ 170,534	\$ 160,732

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
OPERATING REVENUES		
Mortgage interest income	\$ 30,512	\$ 29,605
Investment income	2,883	2,614
Gain on sale of investments	1,098	420
Fee income	3,510	3,669
Total revenues	38,003	36,308
OPERATING EXPENSES		
Interest expense	18,213	18,375
Agency grants	1,284	786
Administrative and operating expenses	4,931	5,415
Salaries and benefits	3,480	3,264
Pension expense	275	146
Depreciation	2	-
Total expenses	28,185	27,986
OPERATING INCOME	9,818	8,322
NONOPERATING REVENUES (EXPENSES)		
Federal grants	12,801	12,066
Investment income	66	127
Federal grants	(12,801)	(12,265)
Total nonoperating revenues (expenses)	66	(72)
INCOME BEFORE TRANSFERS	9,884	8,250
TRANSFERS		
Transfers in from Department of Commerce	-	211
Transfer out to Adjutant General	(43)	-
Transfers out to Industrial Commission	(39)	(39)
CHANGE IN NET POSITION	9,802	8,422
TOTAL NET POSITION, BEGINNING OF YEAR	160,732	152,310
TOTAL NET POSITION, END OF YEAR	\$ 170,534	\$ 160,732

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
OPERATING ACTIVITIES		
Receipts from customers	\$ 203,099	\$ 130,974
Proceeds from sale of loans receivable	47,376	17,924
Grant funds received in advance	(61)	(21)
Payment of grants	(1,275)	(771)
Payments to service providers		
State agencies	(535)	(357)
Mortgage loan purchases	(301,315)	(206,569)
Other	(9,370)	(7,281)
Payments to employees	(3,479)	(3,264)
Payment of rebate to IRS	-	(67)
Net cash used by operating activities	(65,560)	(69,432)
NONCAPITAL FINANCING ACTIVITIES		
Principal payments on loan from Bank of North Dakota	(127,351)	(97,425)
Principal payments on bonds payable	(249,400)	(102,480)
Proceeds from loan borrowings from Bank of North Dakota	113,910	100,766
Proceeds from bond issuance	241,161	264,668
Interest paid on loans and bonds	(17,985)	(17,801)
Proceeds from federal grants	12,801	12,066
Payment of federal grants	(12,801)	(12,265)
Transfers from Department of Commerce	-	211
Transfer out to Adjutant General	(43)	-
Transfers to Industrial Commission	(39)	(39)
Net cash provided (used) by noncapital financing activities	(39,747)	147,701
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(17)	-
INVESTING ACTIVITIES		
Purchase of investments	(488)	(10,006)
Proceeds from sale of investments	14,044	5,679
Interest received from investments	554	690
Net cash provided (used) by for investing activities	14,110	(3,637)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(91,214)	74,632
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	219,434	144,802
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 128,220	\$ 219,434
CASH AND CASH EQUIVALENTS - UNRESTRICTED	\$ 4,998	\$ 4,181
CASH AND CASH EQUIVALENTS - RESTRICTED	123,222	215,253
	\$ 128,220	\$ 219,434

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET		
CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 9,818	\$ 8,322
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2	-
Amortization		
Original issue discounts and premiums	(3,285)	(1,611)
Service release premium	871	840
Reclassification of interest income/expense to other activities	18,068	18,313
Changes in deferred inflows and outflows:		
Deferred outflow - pension	(523)	92
Financial derivative instrument	-	23
Deferred inflows - pension	8	(71)
Changes in assets and liabilities:		
Decrease in due from HUD	14	23
Decrease in due from State Agencies	1	19
Decrease in other receivables	87	(128)
Increase in service release premium	(1,482)	(1,357)
Increase in prepaid expenses	(4)	(18)
Increase in loan interest receivable	(95)	(292)
Increase in loans receivable	(90,433)	(94,211)
Decrease in due to HUD	(4)	(9)
Decrease in due to State Agencies	(22)	10
Increase in rebate due to IRS	89	(73)
Decrease in other liabilities	(136)	(34)
Increase in compensated absences	22	29
Increase funds held in trust	914	671
Increase net pension liability	614	51
Increase (decrease) in deferred credits	(23)	-
Decrease grant funds received in advance	(61)	(21)
Net cash used by operating activities	\$ (65,560)	\$ (69,432)
Non-cash disclosures:		
Decrease in fair value of investments	\$ (461)	\$ (497)

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENT OF APPROPRIATIONS
BIENNIUM ENDED JUNE 30, 2017
(In Thousands)

	2015-2017 Appropriations Original	2015-2017 Appropriations As Adjusted	2015-2017 Expenditures	Unexpended Appropriations
Administrative Expenses:				
Salaries, wages and benefits	\$ 7,745	\$ 7,745	\$ 7,088	\$ 657
Operating expenses	3,744	4,874	4,873	1
Grants, benefits and claims	25,931	27,224	27,135	89
Contingency	100	100	17	83
Total	\$ 37,520	\$ 39,943	\$ 39,113	\$ 830

- (1) The Agency's total appropriations of \$39,943 consist of funding of \$25,228 from federal funds and \$14,715 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 4 of SB 2014.
- (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	\$ 20,335
Less: Grants, benefits and claims	(14,085)
Administrative and operating expenses relating to	
Rental, Homeownership Bonds and Agency expenses	1,523
Amortization of service release premium	871
Interest expense for the Agency	(233)
Depreciation	<u>2</u>
Total administrative and operation expenses, salaries and benefits, and depreciation	<u>\$ 8,413</u>

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(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, 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 as set forth by the GASB, no other 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, 2017 AND 2016
(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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 for 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 statement of net position. 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.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

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, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statements of revenues, expenses, 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 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*.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

Interfund Receivables and Payables

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

Mortgage Loans Receivable

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

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.

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.

Fair Value of Financial Statements

Fair value measurements are used to record fair value adjustments to certain assets, deferred outflows of resources, liabilities and deferred inflows of resources to determine fair value disclosures.

Fair Value Hierarchy

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

Determination of Fair Value

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Agency's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. The following is a description of the methodologies used for instruments measured at fair value.

Securities

Securities consist primarily of Federal agencies and mortgage backed securities. Securities are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded in an active market; examples would include U.S. Treasuries. Level 2 securities as defined above would include mortgage-backed securities and municipal bonds.

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the settlement value adjusted by estimated nonperformance risk.

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 balances of deposits of the Agency at June 30, 2017 and 2016 were \$18,122 and \$17,485, respectively, 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 amounts of the deposits of the Agency at the Bank of North Dakota at June 30, 2017 and 2016 were \$18,163 and \$17,323, respectively.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(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 amounts of the Agency's cash and cash equivalents as reported on the balance sheet at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 4,998	\$ 4,181
Total cash and cash equivalents	<u>\$ 4,998</u>	<u>\$ 4,181</u>
Restricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 13,165	\$ 13,142
Deposits at Wells Fargo	-	4,571
Deposits at Wilmington Trust	5,132	-
Cash and cash equivalents held in trust	35,066	127,684
Fixed rate investment agreements reported as cash equivalents	<u>69,859</u>	<u>69,856</u>
Total cash and cash equivalents	<u>\$ 123,222</u>	<u>\$ 215,253</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, 2017:

	<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>
US Treasury Bonds	\$ 2,154	\$ -	\$ 2,154	\$ -	\$ -
Mortgage Backed Securities	<u>2,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,436</u>
Total Debt Securities	<u>\$ 4,590</u>	<u>\$ -</u>	<u>\$ 2,154</u>	<u>\$ -</u>	<u>\$ 2,436</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

The following shows the investments by investment type, amount and the duration at June 30, 2016:

	<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>
US Treasury Bonds	\$ 14,180	\$ 11,844	\$ 2,336	\$ -	\$ -
Mortgage Backed Securities	<u>4,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,425</u>
Total Debt Securities	<u>\$ 18,605</u>	<u>\$ 11,844</u>	<u>\$ 2,336</u>	<u>\$ -</u>	<u>\$ 4,425</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed rate investment agreements and the U.S. Treasury Bonds are not rated.

As of June 30, 2017, the Agency owned \$484 and the 1994 General Resolution Bond Issues owned \$1,952 of the \$2,436 Mortgage Backed Securities. The \$1,952 is restricted funds through the Bond Issue requirements. The Agency operating fund investment securities with a carrying amount of approximately \$2,638, (including the \$484 MBS owned by the Agency), at June 30, 2017 were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

As of June 30, 2016, the Agency owned \$799 and the 1994 General Resolution Bond Issues owned \$3,626 of the \$4,425 Mortgage Backed Securities. The \$3,626 is restricted funds through the bond issue requirements. The Agency Operating Fund investment securities with a carrying amount of approximately \$5,961, (including the \$799 MBS owned by the Agency), at June 30, 2016 were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans.

The \$9,018 current restricted investments for the year ended June 30, 2016 is a U.S. Treasury bond associated with the Multi-Family Bond, which is restricted to pay principal and interest for that bond. There are no current restricted investments for the year ended June 30, 2017.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the balances of assets, deferred outflow of resources and deferred inflow of resources measured at fair value on a recurring basis at June 30, 2017.

	<u>Total</u>	<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
ASSETS				
Mortgage-backed securities				
Agency	\$ 2,436	\$ -	\$ 2,436	\$ -
US treasuries	2,154	2,154	-	-
Total	<u>\$ 4,590</u>	<u>\$ 2,154</u>	<u>\$ 2,436</u>	<u>\$ -</u>
Interest rate swap	<u>\$ 3,777</u>	<u>\$ -</u>	<u>\$ 3,777</u>	<u>\$ -</u>

The table below presents the balances of assets, deferred outflow of resources and deferred inflow of resources measured at fair value on a recurring basis at June 30, 2016.

	<u>Total</u>	<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
ASSETS				
Mortgage-backed securities				
Agency	\$ 4,425	\$ -	\$ 4,425	\$ -
US treasuries	14,180	14,180	-	-
Total	<u>\$ 18,605</u>	<u>\$ 14,180</u>	<u>\$ 4,425</u>	<u>\$ -</u>
Interest rate swap	<u>\$ 7,633</u>	<u>\$ -</u>	<u>\$ 7,633</u>	<u>\$ -</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 5 LOANS RECEIVABLE

Loans receivable at June 30, 2017 and 2016, consist of the following:

	2017	2016
Restricted:		
Agency operating funds	\$ 12,604	\$ 5,651
Less: current portion	317	183
	\$ 12,287	\$ 5,468
Restricted:		
Homeownership bond funds	\$ 833,596	\$ 750,116
Less: current portion	20,135	17,732
	\$ 813,461	\$ 732,384

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 9.35% for the year ended June 30, 2017 and from 0.00% to 9.39% for the year ended June 30, 2016 with maturities of such loans ranging from less than one year to 40 years.

Included in Homeownership and Agency mortgage loans are loans totaling \$494 which have been foreclosed on and are owned by the Agency (REO), \$366 in real estate loans in judgment (REJ), and 28 loans totaling \$2,742 were in the foreclosure process at June 30, 2017. At June 30, 2016, Homeownership and Agency mortgage loans included loans totaling \$288 which have been foreclosed on and are owned by the Agency (REO), \$14 in real estate loans in judgment (REJ), and 30 loans totaling \$3,347 were in the foreclosure process. Since such loans are at least partially insured or guaranteed by outside parties, it is anticipated that the Agency will recover substantially all of the unpaid principal and interest on the loans through insurance payments or sale of foreclosed property.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 6 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:

	2017	2016
Due from HUD	\$ 132	\$ 145
Due to HUD	\$ 14	\$ 18

NOTE 7 EQUIPMENT

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

	Equipment	Accumulated Depreciation	Net Equipment
Balance July 1, 2015	\$ 197	\$ 197	\$ -
Additions	-	-	
Deletions	-	-	
	\$ 197	\$ 197	\$ -
Balance June 30, 2016	\$ 197	\$ 197	\$ -
Additions	17	2	
Deletions	(11)	(11)	
	\$ 203	\$ 188	\$ 15

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 8 OTHER RECEIVABLES

A detail of other receivables as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted:		
Receivable from developers	\$ 156	\$ 303
Accounts receivable	<u>309</u>	<u>215</u>
	<u>\$ 465</u>	<u>\$ 518</u>
Restricted:		
Accounts receivable	<u>\$ -</u>	<u>\$ 33</u>

NOTE 9 OTHER LIABILITIES

A detail of other liabilities as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Remarketing fees	\$ 22	\$ 39
Commitment fees	82	165
Accounts payable	468	477
NIPB fee	-	4
Trustee fees	<u>70</u>	<u>91</u>
	<u>\$ 642</u>	<u>\$ 776</u>

NOTE 10 COMPENSATED ABSENCES

A summary of compensated absences as of June 30, 2017 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance, July 1	\$ 319	\$ 290
Additions	224	209
Reductions	<u>(203)</u>	<u>(180)</u>
Ending balance, June 30	<u>\$ 340</u>	<u>\$ 319</u>
Amounts due within one year	<u>\$ 202</u>	<u>\$ 178</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 11 RELATED PARTY TRANSACTIONS

The Agency had the following transactions with related parties as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents - unrestricted		
Bank of North Dakota	<u>\$ 4,998</u>	<u>\$ 4,181</u>
Cash and cash equivalents - restricted		
Bank of North Dakota	<u>\$ 13,165</u>	<u>\$ 13,142</u>
Due from state agencies		
Housing Incentive Fund	<u>\$ 1</u>	<u>\$ 3</u>
Due to state agencies		
Information Technology Department	\$ 6	\$ 7
Attorney General	1	1
Department of Transportation	1	1
Bank of North Dakota	-	22
Office of Management and Budget	1	-
	<u>\$ 9</u>	<u>\$ 31</u>
Loans payable to the Bank of North Dakota	<u>\$ -</u>	<u>\$ 13,440</u>
Transfers in		
Department of Commerce	<u>\$ -</u>	<u>\$ 211</u>
Transfers out		
Adjutant General	\$ 43	\$ -
Industrial Commission	39	39
	<u>\$ 82</u>	<u>\$ 39</u>
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 380	\$ 228
Safekeeping fees	1	-
Information Technology Department		
Telephone and data processing	19	19
Data processing	59	65
Attorney General		
Legal fees	26	49
Office of Management and Budget		
Supplies and conferences	18	14
Risk management premium	1	1
Indirect cost allocation	1	1
Housing Incentive Fund		
Administration and support	19	21
Department of Transportation		
Travel	8	10
Department of Insurance		
State fire and tornado fund premium	1	-

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 12 BONDS PAYABLE

Change in Bonds Payable

A summary of changes in bonds payable for the year ended June 30, 2017 is as follows:

	Balance 7/1/16	Additions	Reductions	Balance 6/30/17	Amounts Due Within One Year
Homeownership bond funds, par	\$ 774,470	\$ 234,570	\$ 240,400	\$ 768,640	\$ 26,465
Multi-family revenue bonds	9,000	-	9,000	-	-
Premium on bond funds	14,262	6,591	3,285	17,568	1,226
Homeownership bond funds, net	<u>\$ 797,732</u>	<u>\$ 241,161</u>	<u>\$ 252,685</u>	<u>\$ 786,208</u>	<u>\$ 27,691</u>

A summary of changes in bonds payable for the year ended June 30, 2016 is as follows:

	Balance 7/1/15	Additions	Reductions	Balance 6/30/16	Amounts Due Within One Year
Homeownership bond funds, par	\$ 628,120	\$ 248,830	\$ 102,480	\$ 774,470	\$ 18,621
Multi-family revenue bonds	-	9,000	-	9,000	9,000
Premium on bond funds	9,035	6,838	1,611	14,262	939
Homeownership bond funds, net	<u>\$ 637,155</u>	<u>\$ 264,668</u>	<u>\$ 104,091</u>	<u>\$ 797,732</u>	<u>\$ 28,560</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, 2017 AND 2016
(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>
2018	\$ 26,465	\$ 21,044	\$ 47,509
2019	30,925	21,637	52,562
2020	28,300	21,084	49,384
2021	26,500	20,527	47,027
2022	27,240	19,946	47,186
2023 - 2027	119,875	90,177	210,052
2028 - 2032	121,145	72,276	193,421
2033 - 2037	143,440	51,493	194,933
2038 - 2042	146,435	25,214	171,649
2043 - 2047	97,405	6,178	103,583
2048	910	18	928
Premiums	17,568	(17,568)	-
	<u>\$ 786,208</u>	<u>\$ 332,026</u>	<u>\$ 1,118,234</u>

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2017. 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>2017</u>	<u>2016</u>
Series 2005CD			
Term bond 1/1/36	Variable	\$ -	\$ 11,305
Series 2006A			
Term bond 7/1/37	Variable	-	27,625
Premium (discount)		-	678
Series 2007CD			
Term bond 1/1/38 (Premium)	5.75	870	2,525
Premium (discount)		12	36
Series 2008 A			
Term bond 1/1/39	Variable	13,155	13,155
Premium (discount)		278	293

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	Interest Rate	2017	2016
Series 2008 B			
Term bond 07/1/2038	Variable	\$ 12,735	\$ 12,735
Series 2008 D			
Term bond 7/1/39	Variable	21,850	21,850
Series 2009 AB			
Term bond 1/1/30	Variable	-	42,790
Series 2009 CD			
Serial bonds 1/1/11 - 7/1/21	1.00 - 4.13	1,795	4,035
PAC Term Bond 1/1/2029 (Premium)	5.25	1,905	2,680
Term bond 7/1/41	3.96	-	11,580
Premium (discount)		26	133
Series 2010 AB			
Serial bonds 7/1/11 - 7/1/21	0.75 - 4.05	860	2,540
PAC Term Bond 7/1/2028 (Premium)	5.00	2,045	3,180
Term bond 7/1/41	3.96	-	12,970
Premium (discount)		14	91
Series 2010 CD			
Serial bonds 7/1/12 - 7/1/20	0.90 - 3.40	1,525	1,990
Term bond 7/1/26	4.13	15	15
Term bond 1/1/29 (Premium)	4.50	1,605	2,120
Term bond 7/1/41	3.16	-	12,240
Premium (discount)		18	101
Series 2010 EF			
Serial bonds 7/1/11 - 7/1/20	0.60 - 3.45	2,740	5,890
PAC Term Bond 7/1/2041 (Premium)	4.50	3,520	4,550
PAC Term Bond 1/1/2035 (Premium)	4.50	4,315	5,760
Premium (discount)		107	173
Series 2011 AB			
Serial bonds 7/1/12 - 7/1/22	0.35 - 4.00	6,240	9,850
Term bond 1/1/28 (Premium)	4.50	3,160	4,155
Term bond 1/1/31	3.96	-	5,540
Term bond 7/1/41	3.96	-	24,230
Premium (discount)		43	220

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	Interest Rate	2017	2016
Series 2011 CD			
Serial bonds 1/1/13 - 7/1/22	0.85 - 3.70	\$ 3,845	\$ 4,520
Term bond 1/1/26	4.13	-	1,340
Term bond 7/1/28 (Premium)	4.25	1,085	1,465
Term bond 7/1/41	3.96	-	13,670
Premium (discount)		9	45
Series 2012 AB			
Serial bonds 7/1/13 - 7/1/21	0.60 - 3.05	8,130	9,880
Serial bonds 7/1/21 - 7/1/24	2.75 - 3.05	6,165	6,165
Term bond 7/1/27	3.35	2,485	3,770
Term bond 7/1/32	3.60	-	3,475
Term bond 7/1/34	3.75	-	985
Term bond 7/1/42 (Premium)	3.75	10,170	13,825
Premium (discount)		463	698
Series 2013 A			
Serial bonds 7/1/14 - 7/1/23	0.45 - 3.80	8,810	11,215
Term bond 7/1/28	4.65	-	5,565
Term bond 7/1/33	5.00	-	575
Term bond 1/1/38	5.15	-	435
Term bond 7/1/43 (Premium)	3.50	15,010	18,340
Premium (discount)		259	400
Series 2014 AB			
Serial bonds 1/1/15 - 7/1/25	0.20 - 3.15	18,090	20,965
Term bond 7/1/27	3.45	-	3,520
Term bond 7/1/34 (Premium)	4.00	15,550	18,485
Term bond 7/1/44	Variable	27,055	27,055
Premium (discount)		1,298	1,555
Series 2015A			
Serial bonds 7/1/15 - 7/1/26	0.20 - 3.10	22,270	25,475
Term bond 7/1/30	3.38	8,550	9,860
Term bond 1/1/38 (Premium)	4.00	14,840	16,310
Premium (discount)		1,220	1,428
Series 2015BC			
Serial bonds 1/1/16 - 7/1/25	0.40 - 3.05	22,160	24,420
Term bond 1/1/36 (Premium)	4.00	20,090	21,315
Term bond 1/1/46	Variable	17,700	17,700
Premium (discount)		1,500	1,659

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	Interest Rate	2017	2016
Series 2015DE			
Serial bonds 7/1/16 - 1/1/26	0.45 - 2.90	\$ 23,680	\$ 25,340
Term bond 7/1/46 (Premium)	4.00	23,955	24,660
Term bond 7/1/36	Variable	25,000	25,000
Premium (discount)		1,784	1,939
Series 2015F			
Term Bond 1/1/47	Variable	25,000	25,000
Series 2016AB			
Serial bonds 1/1/17 - 1/1/19	0.85 - 1.30	6,405	10,345
Serial bonds 1/1/19 - 7/1/27	1.05 - 2.60	46,565	46,565
Term bond 7/1/31	2.95	19,820	21,125
Term bond 1/1/35	3.20	14,150	16,845
Term bond 1/1/47 (Premium)	4.00	52,175	53,950
Premium (discount)		4,270	4,813
2015 Multi-family Revenue Bonds	0.40	-	9,000
Series 2016CDE			
Serial bonds 1/1/17 - 7/1/22	1.00 - 1.95	5,135	-
Serial bonds 7/1/22 - 7/1/25	1.70 - 2.15	8,350	-
Serial bonds 7/1/25 - 7/1/28	2.15 - 2.60	13,905	-
Term bond 7/1/32	2.85	22,825	-
Term bond 1/1/36	3.15	22,330	-
Term bond 7/1/46 (Premium)	3.50	54,005	-
Premium (discount)		4,160	-
Series 2017A			
Serial bonds 1/1/18 - 7/1/28	1.10 - 3.05	38,605	-
Term bond 7/1/32	3.55	10,465	-
Term bond 7/1/34	3.70	4,530	-
Term bond 7/1/47 (Premium)	4.00	26,400	-
Premium (discount)		2,107	-
Series 2017BC			
Serial bonds 7/1/18 - 7/1/24	1.60 - 3.15	11,060	-
Term Bond 1/1/47	Variable	13,940	-
		<u>\$ 786,208</u>	<u>\$ 797,732</u>

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

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Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of \$786,208 maturing at various times from July 1, 2017 through July 1, 2047. 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 \$240,400 and \$17,740, 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 issued Series 2017D and 2017E Homeownership Revenue Bonds totaling \$80,000 and \$8,190, respectively. The 2017D bonds have an interest rate ranging from 1.50% to 4.00% and mature between July 1, 2022 and January 1, 2048. The 2017E bonds have an interest rate ranging from 1.05% to 1.90% and mature between July 1, 2018 and July 1, 2022.

NOTE 13 FINANCIAL DERIVATIVE INSTRUMENT

Objective of the Interest Rate Swap

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

Terms

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

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Credit Risk

As of June 30, 2017, the Agency had one swap that had a positive fair value totaling \$94. As of June 30, 2016, the Agency had one swap that had a positive fair value totaling \$2,688. 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, 2017 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$2,048 and the swap providers owed the Agency a variable rate on the notional amounts of \$204 making the net payment that the Agency owe the swap providers \$1,844.

Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value¹⁰ of \$3,777 and \$7,633 at June 30, 2017 and 2016. 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, 2017 and 2016. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

Basis Risk

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate⁶ and the synthetic rate¹² as of June 30, 2017 and 2016. 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.

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Rollover Risk

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

The terms of the interest rate swaps at June 30, 2017 are as follows:

1	Bond Series	2008 B	2008 D	2014 B	2015 C
2	Issuance Date	2/26/2008	8/5/2008	6/24/2014	10/1/2015
3	Maturity Date	7/1/2038	7/1/2039	7/1/2044	1/1/2046
4	Notional Amount	6,655	21,850	27,055	17,700
5	Variable-rate Bonds	6,655	21,850	27,055	17,700
6	Fixed Rate	4.725%	3.919%	2.890%	2.486%
7	LIBOR Percentage	100.00%	63.70%	65.80%	66.20%
8	Additional Percentage	0.00%	0.20%	0.17%	0.10%
9	Bonds Variable-rate	1.20000%	0.91000%	0.92000%	1.64000%
10	Fair Value	(550)	(686)	(1,318)	(334)
11	Percentage of LIBOR	0.00000%	20.00000%	0.17000%	10.00000%
12	Synthetic Rate	5.92500%	4.62900%	3.64000%	4.02600%
13	Actual Synthetic Rate	5.01728%	3.75186%	2.76455%	5.78957%
14	Change in Fair Value	(419)	(682)	(1,353)	(956)
15	Optional Termination Date	1/1/2020	1/1/2018	N/A	7/1/2020
1	Bond Series	2015 E	2015 F	2017C	
2	Issuance Date	5/1/2016	12/8/2015	4/1/2017	
3	Maturity Date	7/1/1936	1/1/1947	7/1/1947	
4	Notional Amount	25,000	24,475	20,545	
5	Variable-rate Bonds	25,000	24,475	20,545	
6	Fixed Rate	2.257%	2.320%	2.783%	
7	LIBOR Percentage	66.40%	100.00%	100.00%	
8	Additional Percentage	0.22%	0.00%	0.00%	
9	Bonds Variable-rate	N/A	1.20000%	1.20000%	
10	Fair Value	(488)	94	(495)	
11	Percentage of LIBOR	0.22000%	0.00000%	1.20000%	
12	Synthetic Rate	2.03700%	3.52000%	2.78250%	
13	Actual Synthetic Rate	N/A	2.37827%	2.76883%	
14	Change in Fair Value	(818)	(1,762)	(495)	
15	Optional Termination Date	7/1/2020	1/1/2025	7/1/2027	

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The terms of the interest rate swaps at June 30, 2016 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	11,305	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	0.48000%	0.44000%	0.43000%	0.42000%
10	Fair Value	(187)	(508)	(354)	(969)
11	Percentage of LIBOR	0.60298%	0.60298%	0.61298%	0.46505%
12	Synthetic Rate	3.76602%	3.79202%	3.01502%	4.67995%
13	Actual Synthetic Rate	3.70351%	3.75585%	2.94652%	4.99648%
14	Change in Fair Value	241	1045	348	84
15	Optional Termination Date	7/1/2016	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	17,700
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	0.42000%	0.43000%	0.43000%	1.14000%
10	Fair Value	(1,368)	2,688	(2,671)	(1,290)
11	Percentage of LIBOR	0.49624%	0.53089%	47.60000%	0.40786%
12	Synthetic Rate	3.84276%	3.00711%	2.84400%	3.21814%
13	Actual Synthetic Rate	3.72664%	2.83751%	2.66104%	3.82242%
14	Change in Fair Value	647	(1,430)	(904)	(1,081)
15	Optional Termination Date	1/1/2018	7/1/2016	N/A	7/1/2020
1	Bond Series	2015 E	2015 F		
2	Issuance Date	5/1/2016	12/8/2015		
3	Maturity Date	7/1/1936	1/1/1947		
4	Notional Amount	25,000	25,000		
5	Variable-rate Bonds	25,000	25,000		
6	Fixed Rate	2.257%	2.320%		
7	LIBOR Percentage	66.40%	100.00%		
8	Additional Percentage	0.22%	0.00%		
9	Bonds Variable-rate	N/A	0.42000%		
10	Fair Value	(1,306)	(1,668)		
11	Percentage of LIBOR	0.22000%	0.46505%		
12	Synthetic Rate	2.03700%	2.27495%		
13	Actual Synthetic Rate	N/A	2.38952%		
14	Change in Fair Value	(1,306)	(1,668)		
15	Optional Termination Date	7/1/2020	1/1/2025		

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Swap Payments and Associated Debt

Using rates as of June 30, 2017, 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, 2017. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2018	\$ 2,030	\$ 1,340	\$ 3,640	\$ 7,010
2019	2,545	1,311	3,568	7,424
2020	2,545	1,280	3,494	7,319
2021	2,335	1,252	3,426	7,013
2022	2,130	1,225	3,364	6,719
2023 - 2027	15,520	5,719	15,915	37,154
2028 - 2032	24,520	4,896	13,513	42,929
2033 - 2037	38,440	3,975	10,112	52,527
2038 - 2042	37,330	1,811	3,890	43,031
2043 - 2047	15,775	291	525	16,591
2048 - 2052	110	-	-	110
	<u>\$ 143,280</u>	<u>\$ 23,100</u>	<u>\$ 61,447</u>	<u>\$ 227,827</u>

NOTE 14 LOAN FROM BANK OF NORTH DAKOTA

The following is a summary of changes in loan from the Bank of North Dakota for the years ended June 30, 2017 and 2016:

Balance July 1, 2015	\$ 10,099
Principal payments on advance from Bank of North Dakota	(97,425)
Loan advance from Bank of North Dakota	<u>100,766</u>
Balance June 30, 2016	\$ 13,440
Principal payments on advance from Bank of North Dakota	(127,351)
Loan advance from Bank of North Dakota	<u>113,911</u>
Balance June 30, 2017	<u>\$ -</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2017, the line of credit has no outstanding balance, has a credit limit of \$60,000 and expires on July 1, 2018. The line of credit bears interest at 1.50% over the 1 month LIBOR index with a minimum interest rate of 2.25%. As of June 30, 2016, 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, 2017. 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 15 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions 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). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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 for 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.

Member and Employer Contributions

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

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 24 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

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

At June 30, 2017 and 2016, the Agency reported a liability of \$2,269 and \$1,655 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency'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, 2016, the Agency's proportion was 0.232841 percent, which was a decrease of 0.010605 percent from its proportion measured of 0.243446 as of June 30, 2015.

NORTH DAKOTA HOUSING FINANCE AGENCY
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(In Thousands)

For the year ended June 30, 2017, the Agency recognized pension expense of \$275. At June 30, 2017, the Agency 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	\$ 34	\$ (21)
Changes of assumptions	209	(113)
Net difference between projected and actual earnings on pension plan investments	317	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(116)
Employer contributions subsequent to the measurement date	<u>176</u>	<u>-</u>
Total	<u><u>\$ 736</u></u>	<u><u>\$ (250)</u></u>

\$176 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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:

2018	\$	51
2019		51
2020		120
2021		68
2022		20

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
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For the year ended June 30, 2016, the Agency recognized pension expense of \$146. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 48	\$ -
Changes of assumptions	-	(147)
Net difference between projected and actual earnings on pension plan investments	-	(35)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(60)
Employer contributions subsequent to the measurement date	165	-
Total	\$ 213	\$ (242)

\$165 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Actuarial Assumptions

The total pension liability in the July 1, 2016 and 2015 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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 for the years ended June 30, 2017 and 2016 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%	1.52%
International Fixed Income	5%	0.45%
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, 2016 and 2015. 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, 2016 and 2015, 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, 2016 and 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016 and 2015.

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

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate at June 30, 2017:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 3,219	\$ 2,269	\$ 1,469

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Agency'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 at June 30, 2016:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 2,538	\$ 1,655	\$ 933

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 years ended June 30, 2017 and 2016.

NOTE 16 COMMITMENTS AND CONTINGENCIES

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

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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The Agency's exposure to credit loss is represented by the contractual amount of these commitments. The Agency follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

	2017	2016
Commitments to extend credit	\$ 72,586	\$ 75,311
Loan Acquisition Fund	\$ 16,459	\$ 54,324

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

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

As of June 30, 2017 and 2016, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$435 and \$346.

NOTE 17 REBATE DUE TO IRS

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

	2017	2016
Series 16 AB	\$ 70	\$ -
Series 15 A	32	13
Total	\$ 102	\$ 13

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

	2017	2016
Beginning balance, July 1	\$ 13	\$ 86
Additions	89	-
Reductions	-	(73)
Ending balance, June 30	\$ 102	\$ 13
Amounts due within one year	\$ -	\$ -

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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NOTE 18 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. The financial statements identify this fund as unrestricted, however, all Agency net position is a reserved general obligation of the bond series. The general obligation (issuer) rating by Moody's Investor Service (a national financial rating service) is influenced by the relationship of Agency net position to several other financial statement factors and major investors monitor the amount of net position as additional collateral for the publicly traded bond investments.

NOTE 19 RISK MANAGEMENT

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

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

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

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.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 20 OPERATING LEASES

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

Year ending June 30,		
2018	\$	206
2019		206

Total rental expense was \$233 and \$232 for the years ended June 30, 2017 and 2016.

NOTE 21 SEGMENT INFORMATION

The Agency maintains two Enterprise Funds which provide loans to finance construction of residential housing and single family homeownership. Segment information as of and for the year ended June 30, 2017, was as follows:

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Statement of Net Position				
Current assets - other	\$ 23,155	\$ 155,409	\$ (25,569)	\$ 152,995
Capital assets - net	15	-	-	15
Noncurrent assets - other	16,000	818,051	-	834,051
Total assets	39,170	973,460	(25,569)	987,061
 Deferred outflow of resources	736	3,777	-	4,513
 Current liabilities - other	25,447	51,792	(25,569)	51,670
Noncurrent liabilities - other	6,724	762,396	-	769,120
Total liabilities	32,171	814,188	(25,569)	820,790
 Deferred inflow of resources	250	-	-	250
 Invested in capital assets	15	-	-	15
Net position - unrestricted	7,470	-	-	7,470
Net position - restricted	-	163,049	-	163,049
Total net position	\$ 7,485	\$ 163,049	\$ -	\$ 170,534

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

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Statement of Revenues, Expenses and Change in Fund Net Position				
Operating revenues				
Mortgage interest income	\$ 510	\$ 30,002	\$ -	\$ 30,512
Investment income	-	2,883	-	2,883
Gain on sale of investments	-	1,098	-	1,098
Fee income	8,030	-	(4,520)	3,510
Depreciation	(2)	-	-	(2)
Other operating expenses	(8,690)	(24,013)	4,520	(28,183)
Operating income	<u>(152)</u>	<u>9,970</u>	<u>-</u>	<u>9,818</u>
Nonoperating revenues (expenses)				
Federal grants	12,801	-	-	12,801
Settlement funds	-	-	-	-
Investment income	66	-	-	66
Federal grants	(12,801)	-	-	(12,801)
Transfers	(82)	-	-	(82)
Change in net position	<u>(168)</u>	<u>9,970</u>	<u>-</u>	<u>9,802</u>
Total net position, beginning of year	7,533	153,199	-	160,732
Equity transfer in (out)	120	(120)	-	-
Total net position, end of year	<u>\$ 7,485</u>	<u>\$ 163,049</u>	<u>\$ -</u>	<u>\$ 170,534</u>
Statement of Cash Flows				
Net cash used by operating activities	\$ (169)	\$ (65,391)	\$ -	\$ (65,560)
Net cash used for noncapital financing activities	(8,492)	(31,255)	-	(39,747)
Net cash used for capital and related financing activities	(17)	-	-	(17)
Net cash from (used by) investing activities	9,308	4,802	-	14,110
Change in cash and cash equivalents	630	(91,844)	-	(91,214)
Cash and cash equivalents, beginning of year	17,221	202,213	-	219,434
Cash and cash equivalents, end of year	<u>\$ 17,851</u>	<u>\$ 110,369</u>	<u>\$ -</u>	<u>\$ 128,220</u>

Segment information as of and for the year ended June 30, 2016, was as follows:

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Balance Sheet				
Current assets - other	\$ 27,897	\$ 303,630	\$ (81,018)	\$ 250,509
Noncurrent assets - other	8,637	741,971	-	750,608
Total assets	<u>36,534</u>	<u>1,045,601</u>	<u>(81,018)</u>	<u>1,001,117</u>
Deferred outflow of resources	213	7,633	-	7,846
Current liabilities - other	22,800	123,217	(81,018)	64,999
Noncurrent liabilities - other	6,172	776,818	-	782,990
Total liabilities	<u>28,972</u>	<u>900,035</u>	<u>(81,018)</u>	<u>847,989</u>
Deferred inflow of resources	242	-	-	242
Net position - unrestricted	7,533	-	-	7,533
Net position - restricted	-	153,199	-	153,199
Total net position	<u>\$ 7,533</u>	<u>\$ 153,199</u>	<u>\$ -</u>	<u>\$ 160,732</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Statement of Revenues, Expenses and Change in Fund Net Position				
Operating revenues				
Mortgage interest income	\$ 455	\$ 29,150	\$ -	29,605
Investment income	-	2,614	-	2,614
Gain on sale of investments	-	420	-	420
Fee income	7,794	-	(4,125)	3,669
Depreciation	-	-	-	-
Other operating expenses	(7,576)	(24,535)	4,125	(27,986)
Operating income	<u>673</u>	<u>7,649</u>	<u>-</u>	<u>8,322</u>
Nonoperating revenues (expenses)				
Federal grants	12,066	-	-	12,066
Settlement funds	-	-	-	-
Investment income	127	-	-	127
Federal grants	(12,265)	-	-	(12,265)
Transfers	172	-	-	172
Change in net position	<u>773</u>	<u>7,649</u>	<u>-</u>	<u>8,422</u>
Total net position, beginning of year	7,358	144,952	-	152,310
Equity transfer in (out)	<u>(598)</u>	<u>598</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 7,533</u>	<u>\$ 153,199</u>	<u>\$ -</u>	<u>\$ 160,732</u>
Statement of Cash Flows				
Net cash from operating activities	\$ 579	\$ (70,011)	\$ -	(69,432)
Net cash used for noncapital financing activities	8,515	139,186	-	147,701
Net cash from investing activities	(8,021)	4,384	-	(3,637)
Change in cash and cash equivalents	1,073	73,559	-	74,632
Cash and cash equivalents, beginning of year	<u>16,148</u>	<u>128,654</u>	<u>-</u>	<u>144,802</u>
Cash and cash equivalents, end of year	<u>\$ 17,221</u>	<u>\$ 202,213</u>	<u>\$ -</u>	<u>\$ 219,434</u>

NOTE 22 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

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 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. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

NORTH DAKOTA HOUSING FINANCE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

North Dakota Public Employees Retirement System
Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.232841%	0.243446%	0.252770%
Employer's proportionate share of the net pension liability (asset)	\$ 2,269	\$ 1,655	\$ 1,604
Employer's covered-employee payroll	2,346	2,169	2,129
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.72%	76.30%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

North Dakota Public Employees Retirement System
Schedule of Employer Contributions
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 185	\$ 170	\$ 165
Contributions in relation to the statutorily required contribution	(185)	(165)	(162)
Contribution deficiency (excess)	-	5	3
Employer's covered-employee payroll	2,474	2,346	2,169
Contributions as a percentage of covered-employee payroll	7.48%	7.25%	7.60%

*Complete data for these schedules is not available prior to 2015.

See Notes to Required Supplementary Information

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

NOTE 1 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM - CHANGES OF ASSUMPTIONS

Amounts reported in 2017 and 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
ASSETS								
CURRENT ASSETS - UNRESTRICTED								
Cash and cash equivalents	\$ 4,998	\$ -	\$ -	\$ -	\$ 4,998	\$ -	\$ 4,998	\$ 4,181
Due from State Agencies	1	-	-	-	1	-	1	3
Receivables								
Interest								
Loans	30	-	-	-	30	-	30	20
Investments	28	-	-	-	28	-	28	54
Due from HUD	132	-	-	-	132	-	132	145
Other	4,203	-	-	-	4,203	(3,738)	465	518
Current portion of service release premium	548	-	-	-	548	-	548	481
Prepaid expenses	45	14	-	14	59	-	59	57
Total unrestricted current assets	<u>9,985</u>	<u>14</u>	<u>-</u>	<u>14</u>	<u>9,999</u>	<u>(3,738)</u>	<u>6,261</u>	<u>5,459</u>
CURRENT ASSETS - RESTRICTED								
Cash and cash equivalents	12,853	89,965	20,404	110,369	123,222	-	123,222	215,253
Investments	-	-	-	-	-	-	-	9,018
Receivables								
Current portion of loans receivable	317	16,502	3,633	20,135	20,452	-	20,452	17,915
Interest								
Loans	-	2,286	549	2,835	2,835	-	2,835	2,750
Investments	-	221	4	225	225	-	225	81
Other	-	21,803	28	21,831	21,831	(21,831)	-	33
Total restricted current assets	<u>13,170</u>	<u>130,777</u>	<u>24,618</u>	<u>155,395</u>	<u>168,565</u>	<u>(21,831)</u>	<u>146,734</u>	<u>245,050</u>
Total current assets	<u>23,155</u>	<u>130,791</u>	<u>24,618</u>	<u>155,409</u>	<u>178,564</u>	<u>(25,569)</u>	<u>152,995</u>	<u>250,509</u>
NONCURRENT ASSETS - UNRESTRICTED								
Service release premium, net	3,713	-	-	-	3,713	-	3,713	3,169
Equipment, net	15	-	-	-	15	-	15	-
Total unrestricted noncurrent assets	<u>3,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,728</u>	<u>-</u>	<u>3,728</u>	<u>3,169</u>
NONCURRENT ASSETS - RESTRICTED								
Loans receivable, net of current portion	12,287	653,460	160,001	813,461	825,748	-	825,748	737,852
Investments	-	4,590	-	4,590	4,590	-	4,590	9,587
Total restricted noncurrent assets	<u>12,287</u>	<u>658,050</u>	<u>160,001</u>	<u>818,051</u>	<u>830,338</u>	<u>-</u>	<u>830,338</u>	<u>747,439</u>
Total noncurrent assets	<u>16,015</u>	<u>658,050</u>	<u>160,001</u>	<u>818,051</u>	<u>834,066</u>	<u>-</u>	<u>834,066</u>	<u>750,608</u>
Total assets	<u>39,170</u>	<u>788,841</u>	<u>184,619</u>	<u>973,460</u>	<u>1,012,630</u>	<u>(25,569)</u>	<u>987,061</u>	<u>1,001,117</u>
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflow - pension	736	-	-	-	736	-	736	213
Financial derivative instrument	-	3,777	-	3,777	3,777	-	3,777	7,633
Total deferred outflows of resources	<u>736</u>	<u>3,777</u>	<u>-</u>	<u>3,777</u>	<u>4,513</u>	<u>-</u>	<u>4,513</u>	<u>7,846</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
LIABILITIES								
CURRENT LIABILITIES								
Due to HUD	\$ 14	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ 14	\$ 18
Due to State Agencies	9	-	-	-	9	-	9	31
Other	12,275	1,557	12,379	13,936	26,211	(25,569)	642	776
Current portion of compensated absences	202	-	-	-	202	-	202	178
Current portion of bonds payable	-	22,073	5,618	27,691	27,691	-	27,691	28,560
Loan from Bank of North Dakota	-	-	-	-	-	-	-	13,440
Accrued interest	-	7,779	2,386	10,165	10,165	-	10,165	9,939
Funds held in trust	12,852	-	-	-	12,852	-	12,852	11,938
Grant funds received in advance	95	-	-	-	95	-	95	97
Deferred credits	-	-	-	-	-	-	-	22
Total current liabilities	<u>25,447</u>	<u>31,409</u>	<u>20,383</u>	<u>51,792</u>	<u>77,239</u>	<u>(25,569)</u>	<u>51,670</u>	<u>64,999</u>
NONCURRENT LIABILITIES								
Compensated absences, net of current portion	138	-	-	-	138	-	138	141
Rebate due to IRS	-	102	-	102	102	-	102	13
Grant funds received in advance	4,317	-	-	-	4,317	-	4,317	4,376
Net pension liability	2,269	-	-	-	2,269	-	2,269	1,655
Financial derivative instrument	-	3,777	-	3,777	3,777	-	3,777	7,633
Bonds payable, net of current portion	-	609,235	149,282	758,517	758,517	-	758,517	769,172
Total noncurrent liabilities	<u>6,724</u>	<u>613,114</u>	<u>149,282</u>	<u>762,396</u>	<u>769,120</u>	<u>-</u>	<u>769,120</u>	<u>782,990</u>
Total liabilities	<u>32,171</u>	<u>644,523</u>	<u>169,665</u>	<u>814,188</u>	<u>846,359</u>	<u>(25,569)</u>	<u>820,790</u>	<u>847,989</u>
DEFERRED INFLOW OF RESOURCES								
Deferred inflow - pension	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>250</u>	<u>242</u>
NET POSITION								
Invested in capital assets	15	-	-	-	15	-	15	-
Restricted for debt service	-	148,095	14,954	163,049	163,049	-	163,049	153,199
Unrestricted	7,470	-	-	-	7,470	-	7,470	7,533
Total net position	<u>\$ 7,485</u>	<u>\$ 148,095</u>	<u>\$ 14,954</u>	<u>\$ 163,049</u>	<u>\$ 170,534</u>	<u>\$ -</u>	<u>\$ 170,534</u>	<u>\$ 160,732</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
OPERATING REVENUES								
Mortgage interest income	\$ 510	\$ 24,458	\$ 5,544	\$ 30,002	\$ 30,512	\$ -	\$ 30,512	\$ 29,605
Investment income	-	2,613	270	2,883	2,883	-	2,883	2,614
Gain on sale of investments	-	1,098	-	1,098	1,098	-	1,098	420
Fee income	8,030	-	-	-	8,030	(4,520)	3,510	3,669
Total revenues	<u>8,540</u>	<u>28,169</u>	<u>5,814</u>	<u>33,983</u>	<u>42,523</u>	<u>(4,520)</u>	<u>38,003</u>	<u>36,308</u>
OPERATING EXPENSES								
Interest expense	233	14,009	3,971	17,980	18,213	-	18,213	18,375
Agency grants	1,284	-	-	-	1,284	-	1,284	786
Administrative and operating expenses	3,418	5,394	639	6,033	9,451	(4,520)	4,931	5,415
Salaries and benefits	3,480	-	-	-	3,480	-	3,480	3,264
Pension expense	275	-	-	-	275	-	275	146
Depreciation	2	-	-	-	2	-	2	-
Total expenses	<u>8,692</u>	<u>19,403</u>	<u>4,610</u>	<u>24,013</u>	<u>32,705</u>	<u>(4,520)</u>	<u>28,185</u>	<u>27,986</u>
OPERATING INCOME	<u>(152)</u>	<u>8,766</u>	<u>1,204</u>	<u>9,970</u>	<u>9,818</u>	<u>-</u>	<u>9,818</u>	<u>8,322</u>
NONOPERATING REVENUE (EXPENSES)								
Federal grants	12,801	-	-	-	12,801	-	12,801	12,066
Investment income	66	-	-	-	66	-	66	127
Federal grants	(12,801)	-	-	-	(12,801)	-	(12,801)	(12,265)
Total nonoperating revenues (expenses)	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>	<u>-</u>	<u>66</u>	<u>(72)</u>
CHANGE IN ASSETS BEFORE TRANSFERS	<u>(86)</u>	<u>8,766</u>	<u>1,204</u>	<u>9,970</u>	<u>9,884</u>	<u>-</u>	<u>9,884</u>	<u>8,250</u>
TRANSFERS								
Transfer in from Department of Commerce	-	-	-	-	-	-	-	211
Transfer to Adjutant General	(43)	-	-	-	(43)	-	(43)	-
Transfer to Industrial Commission	(39)	-	-	-	(39)	-	(39)	(39)
CHANGE IN NET POSITION	<u>(168)</u>	<u>8,766</u>	<u>1,204</u>	<u>9,970</u>	<u>9,802</u>	<u>-</u>	<u>9,802</u>	<u>8,422</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>7,533</u>	<u>140,101</u>	<u>13,098</u>	<u>153,199</u>	<u>160,732</u>	<u>-</u>	<u>160,732</u>	<u>152,310</u>
TRANSFER IN (OUT)	<u>120</u>	<u>(772)</u>	<u>652</u>	<u>(120)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 7,485</u>	<u>\$ 148,095</u>	<u>\$ 14,954</u>	<u>\$ 163,049</u>	<u>\$ 170,534</u>	<u>\$ -</u>	<u>\$ 170,534</u>	<u>\$ 160,732</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
OPERATING ACTIVITIES								
Receipts from customers	\$ 7,234	\$ 226,957	\$ 28,876	\$ 255,833	\$ 263,067	\$ (59,968)	\$ 203,099	\$ 130,974
Proceeds from sale of loans receivable	-	47,376	-	47,376	47,376	-	47,376	17,924
Interfund mortgages loan purchases and sales	75,343	(66,230)	(9,113)	(75,343)	-	-	-	-
Grant funds received in advance	(61)	-	-	-	(61)	-	(61)	(21)
Payment of grants	(1,275)	-	-	-	(1,275)	-	(1,275)	(771)
Payments to service providers								
State agencies	(513)	(22)	-	(22)	(535)	-	(535)	(357)
Mortgage loan purchases	(82,659)	(165,278)	(53,378)	(218,656)	(301,315)	-	(301,315)	(206,569)
Other	5,241	(75,394)	815	(74,579)	(69,338)	59,968	(9,370)	(7,281)
Payments to employees	(3,479)	-	-	-	(3,479)	-	(3,479)	(3,264)
Payment of rebate to IRS	-	-	-	-	-	-	-	(67)
Net cash provided by (used for) operating activities	(169)	(32,591)	(32,800)	(65,391)	(65,560)	-	(65,560)	(69,432)
NONCAPITAL FINANCING ACTIVITIES								
Principal payments on loan from Bank of ND	(78,157)	(49,194)	-	(49,194)	(127,351)	-	(127,351)	(97,425)
Principal payments on bonds payable	(9,000)	(143,340)	(97,060)	(240,400)	(249,400)	-	(249,400)	(102,480)
Proceeds from loan borrowings from Bank of ND	78,157	35,753	-	35,753	113,910	-	113,910	100,766
Proceeds from bond issuance	-	107,122	134,039	241,161	241,161	-	241,161	264,668
Interest paid on loans and bonds	(245)	(14,071)	(3,669)	(17,740)	(17,985)	-	(17,985)	(17,801)
Proceeds from federal grants	12,801	-	-	-	12,801	-	12,801	12,066
Payment of federal grants	(12,801)	-	-	-	(12,801)	-	(12,801)	(12,265)
Transfers from Department of Commerce	-	-	-	-	-	-	-	211
Transfer to Adjutant General	(43)	-	-	-	(43)	-	(43)	-
Transfers to Industrial Commission	(39)	-	-	-	(39)	-	(39)	(39)
Interfund transfer in (out)	835	(906)	71	(835)	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(8,492)	(64,636)	33,381	(31,255)	(39,747)	-	(39,747)	147,701

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
CAPITAL AND RELATED FINANCING ACTIVITIES								
Purchase of equipment	\$ (17)	\$ -	\$ -	\$ -	\$ (17)	\$ -	\$ (17)	\$ -
INVESTING ACTIVITIES								
Purchase of investments	(488)	-	-	-	(488)	-	(488)	(10,006)
Proceeds from sale of investments	9,305	4,739	-	4,739	14,044	-	14,044	5,679
Interest received from investments	491	63	-	63	554	-	554	690
Net cash provided by (used for) investing activities	9,308	4,802	-	4,802	14,110	-	14,110	(3,637)
NET CHANGE IN CASH AND CASH EQUIVALENTS								
	630	(92,425)	581	(91,844)	(91,214)	-	(91,214)	74,632
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR								
	17,221	182,390	19,823	202,213	219,434	-	219,434	144,802
CASH AND CASH EQUIVALENTS AT END OF YEAR								
	\$ 17,851	\$ 89,965	\$ 20,404	\$ 110,369	\$ 128,220	\$ -	\$ 128,220	\$ 219,434
Cash and Cash Equivalents - Unrestricted	\$ 4,998	\$ -	\$ -	\$ -	\$ 4,998	\$ -	\$ 4,998	\$ 4,181
Cash and Cash Equivalents - Restricted	12,853	89,965	20,404	110,369	123,222	-	123,222	215,253
	\$ 17,851	\$ 89,965	\$ 20,404	\$ 110,369	\$ 128,220	\$ -	\$ 128,220	\$ 219,434

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2017	2016
RECONCILIATION OF OPERATING								
INCOME TO NET CASH PROVIDED								
BY (USED FOR) OPERATING ACTIVITIES								
Operating income (loss)	\$ (152)	\$ 8,766	\$ 1,204	\$ 9,970	\$ 9,818	\$ -	\$ 9,818	\$ 8,322
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation	2	-	-	-	2	-	2	-
Amortization								
Original issue discounts and premiums	-	(2,496)	(789)	(3,285)	(3,285)	-	(3,285)	(1,611)
Service release premiums	871	-	-	-	871	-	871	840
Reclassification of interest expense to other activities	233	13,867	3,968	17,835	18,068	-	18,068	18,313
Changes in deferred inflows and outflows:								
Deferred outflow - pension	(523)	-	-	-	(523)	-	(523)	92
Financial derivative instrument	-	-	-	-	-	-	-	23
Deferred inflows - pension	8	-	-	-	8	-	8	(71)
Changes in assets and liabilities:								
(Increase) decrease in due from HUD	14	-	-	-	14	-	14	23
(Increase) decrease in due from State Agencies	1	-	-	-	1	-	1	19
(Increase) decrease in service release premium	(1,482)	-	-	-	(1,482)	-	(1,482)	(1,357)
(Increase) decrease in other receivables	(3,473)	59,010	(2)	59,008	55,535	(55,448)	87	(128)
(Increase) decrease in prepaid expenses	(4)	-	-	-	(4)	-	(4)	(18)
(Increase) decrease in loan interest receivable	(10)	(7)	(78)	(85)	(95)	-	(95)	(292)
(Increase) decrease in loans receivable	(6,650)	(44,435)	(39,348)	(83,783)	(90,433)	-	(90,433)	(94,211)
Increase (decrease) in due to HUD	(4)	-	-	-	(4)	-	(4)	(9)
Increase (decrease) in due to State Agencies	-	(22)	-	(22)	(22)	-	(22)	10
Increase (decrease) in rebate due to IRS	-	89	-	89	89	-	89	(73)
Increase (decrease) in other liabilities	9,534	(67,363)	2,245	(65,118)	(55,584)	55,448	(136)	(34)
Increase (decrease) in compensated absences	22	-	-	-	22	-	22	29
Increase (decrease) funds held in trust	914	-	-	-	914	-	914	671
Increase (decrease) net pension liability	614	-	-	-	614	-	614	51
Increase (decrease) in deferred credits	(23)	-	-	-	(23)	-	(23)	-
Increase (decrease) grant funds received in advance	(61)	-	-	-	(61)	-	(61)	(21)
Net cash provided by (used for) operating activities	\$ (169)	\$ (32,591)	\$ (32,800)	\$ (65,391)	\$ (65,560)	\$ -	\$ (65,560)	\$ (69,432)
Non-cash disclosures:								
Increase (decrease) in fair value of investments	\$ (398)	\$ (63)	\$ -	\$ (63)	\$ (461)	\$ -	\$ (461)	\$ (497)
Fair value transfers	\$ (398)	\$ 398	\$ -	\$ 398	\$ -	\$ -	\$ -	\$ -
Investment transfers	\$ 203	\$ (203)	\$ -	\$ (203)	\$ -	\$ -	\$ -	\$ -
Transfers associated with pledged loans	\$ (304)	\$ 633	\$ (329)	\$ 304	\$ -	\$ -	\$ -	\$ -
Administration and Service Fees Adjustment	\$ 1,215	\$ (962)	\$ (253)	\$ (1,215)	\$ -	\$ -	\$ -	\$ -

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017

Line Item #	Description	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	
		Rent Supplements - Rental Housing for Lower Income Families	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
Assets									
111	Cash - Unrestricted	637,877	62,637	26,934	14,594	22,040	101,593	15,607	48,962
113	Cash - Other Restricted	11	-	-	-	-	-	-	-
115	Cash - Restricted for payment of current liability	-	1,529	1,112	-	2,784	-	411	7,925
100	Total Cash	637,888	64,166	28,046	14,594	24,824	101,593	16,018	56,887
122	Accounts Receivable - HUD Other Projects	109,743	-	-	1,280	-	2,941	-	-
125	Accounts Receivable - Miscellaneous	150	111	64	47	61	108	43	129
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-
120	Total Receivables, net of allowances for	109,893	111	64	1,327	61	3,049	43	129
142	Prepaid Expenses and Other Assets	13,531	102	59	43	56	99	40	119
150	Total Current Assets	761,312	64,379	28,169	15,964	24,941	104,741	16,101	57,135
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-	-	-	-
190	Total Assets	761,312	64,379	28,169	15,964	24,941	104,741	16,101	57,135
Liabilities and Equity									
311	Bank Overdraft	-	-	-	-	-	-	-	-
312	Accounts Payable <= 90 Days	1,285	34	20	14	19	34	13	40
331	Accounts Payable - HUD PHA Programs	11	1,529	1,112	-	2,784	-	411	7,925
310	Total Current Liabilities	1,296	1,563	1,132	14	2,803	34	424	7,965
350	Total Noncurrent Liabilities	-	-	-	-	-	-	-	-
300	Total Liabilities	1,296	1,563	1,132	14	2,803	34	424	7,965
508	Total Contributed Capital	-	-	-	-	-	-	-	-
508.4	Net Investment in Capital Assets	-	-	-	-	-	-	-	-
509.2	Fund Balance Reserved	-	-	-	-	-	-	-	-
511.4	Restricted Net Position	11	1,529	1,112	-	2,784	-	411	7,925
512.4	Unrestricted Net Position	760,005	61,287	25,925	15,950	19,354	104,707	15,266	41,245
513	Total Equity/Net Assets	760,016	62,816	27,037	15,950	22,138	104,707	15,677	49,170
600	Total Liabilities and Equity/Net Assets	761,312	64,379	28,169	15,964	24,941	104,741	16,101	57,135

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

Line Item #	Description	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income
		Rent Supplements - Rental Housing for Lower Income Families	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
Revenue								
70500	Total Tenant Revenue	-	-	-	-	-	-	-
70600	HUD PHA Operating Grants	13,078,179	133,934	55,362	70,625	101,128	110,138	50,512
71100	Investment Income - Unrestricted	-	17	10	7	9	17	7
72000	Investment Income - Restricted	170	2	1	1	2	2	1
700	Total Revenue	13,078,349	133,953	55,373	70,633	101,139	110,157	50,520
Expenses								
91100	Administrative Salaries	343,902	10,103	5,867	4,237	5,541	9,777	3,911
91200	Auditing Fees	9,002	312	181	131	171	302	120
91500	Employee Benefit Contribution - Administrative	150,208	4,660	2,706	1,954	2,556	4,510	1,804
91600	Office Expense	64,857	1,964	1,140	824	1,078	1,900	761
91800	Travel	16,426	126	73	53	69	122	49
91900	Other	90,163	7,517	4,364	3,151	4,121	7,275	2,909
96900	Total Operating Expenses	674,558	24,682	14,331	10,350	13,536	23,886	9,554
97000	Excess Operating Revenue over Operating Expenses	12,403,791	109,271	41,042	60,283	87,603	86,271	40,966
97300	Housing Assistance Payments	12,277,645	106,962	40,781	59,314	86,338	84,037	40,073
90000	Total Expenses	12,952,203	131,644	55,112	69,664	99,874	107,923	49,627
10100	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	126,146	2,309	261	969	1,265	2,234	893
Memo Account Information								
11020	Debt Principal Payments - Enterprise Funds	-	-	-	-	-	-	-
11030	Beginning Equity	633,869	60,507	26,776	14,981	20,873	102,473	14,784
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-	-	-
11130	Maximum Annual Contributions Commitment (per ACC)	9,605,785	214,797	69,976	72,202	107,461	46,800	59,227
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	7,182,663	92,128	599	10,870	5,143	63,368	7,992
11160	Total Annual Contributions Available	16,788,448	306,925	70,575	83,072	112,604	110,168	67,219
11200	Unit Months Available	34,776	372	216	156	204	360	144
11210	Number of Unit Months Leased	34,776	284	166	135	201	316	128

NORTH DAKOTA HOUSING FINANCE AGENCY
ADJUSTED NET WORTH CALCULATION
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period	<u>\$ 170,534</u>
--	-------------------

Less:

Itemized unacceptable assets

1. Due from state agencies

\$	(1)
----	-----

2.

\$	-
----	---

3.

\$	-
----	---

Total unacceptable assets

	<u>\$ (1)</u>
--	---------------

Adjusted net worth

	<u><u>\$ 170,533</u></u>
--	--------------------------

B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 24)	<u>\$ 118,886</u>
--	-------------------

Plus:

Outstanding balance of commitment authority issued and requested	<u>\$ 5,005</u>
---	-----------------

Total outstanding portfolio and authority

	<u>\$ 123,891</u>
--	-------------------

Required net worth

	<u><u>\$ 1,409</u></u>
--	------------------------

C. Excess (deficit) net worth

(Adjusted net worth - required net worth)

	<u><u>\$ 169,124</u></u>
--	--------------------------

NORTH DAKOTA HOUSING FINANCE AGENCY
INSURANCE COVERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017
(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	\$ 144,479
Fannie Mae	-
Freddie Mac	-
Conventional (other)	833,273

Total servicing portfolio	977,752
---------------------------	---------

Required fidelity bond coverage	1,497
---------------------------------	-------

Required mortgage servicing errors and omissions coverage	1,497
---	-------

C. Verification of insurance coverage

Fidelity bond coverage at end of reporting period	2,000
---	-------

Mortgage servicing errors and omissions coverage at end of reporting period	2,000
--	-------

D. Excess (deficit) insurance coverage

Fidelity bond coverage	503
------------------------	-----

Required servicing errors and omissions coverage	503
--	-----

E. Ginnie Mae loss payable endorsement

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

Mortgage servicing errors and omissions coverage	Yes
--	-----

NORTH DAKOTA HOUSING FINANCE AGENCY
CAPITAL REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

A. Capital requirement for depository institutions

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

B. Capital requirement for nodepository institutions

Total adjusted net worth	\$ 170,533	
Total assets	\$ 987,061	
		Meets
Total adjusted net worth / total assets	17.28%	yes

NORTH DAKOTA HOUSING FINANCE AGENCY
LIQUID ASSET REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

A. Liquid asset calculation

Required net worth (from adjusted net worth calculation, page 64)		<u>\$ 1,409</u>
Acceptable liquid assets		
1. Cash and cash equivalents	<u>\$ 128,220</u>	
Total liquid assets		<u>\$ 128,220</u>

B. Required liquid asset

		<u>Meets Requirement?</u>
Excess (deficit) liquid (Total liquid assets / required net worth)	<u>9100%</u>	<u>yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Federal Agency</u>	<u>Federal CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>			
Federal Housing Commission Division			
Direct programs			
Mortgage Insurance - Homes	14.117	\$ -	\$ 133,440,611
Rent Supplements - Rental Housing for Lower Income Families	14.149	-	12,952,220
Housing Counseling Assistance Program	14.169	48,781	48,781
Housing Trust Fund	14.275	-	37,337
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	-	599,664
		<u>48,781</u>	<u>147,078,613</u>
<u>Department of Veterans Affairs</u>			
Veterans Benefits Administration Division			
Veterans Housing - Guaranteed and Insured Loans	64.114	-	5,316,984
		<u>48,781</u>	<u>5,316,984</u>
TOTAL		<u>\$ 48,781</u>	<u>\$ 152,395,597</u>

See Notes to the Schedule of Expenditures of Federal Awards

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of North Dakota Housing Finance Agency under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of North Dakota Housing Finance Agency, it is not intended to and does not present the financial position, change in net position, or cash flows of North Dakota Housing Finance Agency.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement. North Dakota Housing Finance Agency has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE 3 LOAN GUARANTEES AND INSURANCE

The following is the balance of federal loan guarantees and insurance outstanding for the loan programs which appear on the schedule of expenditures of federal awards as of June 30, 2017.

Federal Program	Federal CFDA Number	6/30/17 Balance
Mortgage Insurance - Homes	14.117	\$ 510,112,963
Veterans Housing - Guaranteed and Insured Loans	64.114	32,654,910



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Governor Doug Burgum
The Legislative Assembly
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.

Yes, a management letter was issued regarding the journal entry described in item #9 below. Management agreed with the auditor's recommendation for how to account for this transaction.

Audit Committee Communications:

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

None.

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

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.

Net pension liability – Management's estimate of its actuarially calculated pension liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increase, and form of annuity payment upon retirement.

- 9. Identify any significant audit adjustments.**

Cash and other liabilities were decreased by \$7,290 to eliminate inter-company activity for loans securitized and purchased as an investment by the Agency.

- 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 Assembly, 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 & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

October 12, 2017



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

Governor Doug Burgum
The Legislative Assembly
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, 2017, 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 12, 2017.

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 opinion 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 North Dakota Housing Finance Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

October 12, 2017



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governor Doug Burgum
The Legislative Assembly
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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

October 12, 2017

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	<u> x </u> no	
Significant deficiency(ies) identified?	_____ yes	<u> x </u> none reported	

Noncompliance material to financial statements noted?	_____ yes	<u> x </u> no	
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ yes	<u> x </u> no	
Significant deficiency(ies) identified?	_____ yes	<u> x </u> none reported	

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

Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)?

	_____ yes	<u> x </u> no	
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.117	Mortgage Insurance - Homes
14.149	Rent Supplements - Rental Housing for Lower Income Families
64.114	Veteran's Housing - Guaranteed and Insured Loans

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? x yes _____ 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.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 12, 2017

Governor Doug Burgum
The Legislative Assembly
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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB's Uniform Administrative Requirements, 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 March 6, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Housing Finance Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. 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.

Net pension liability – Management’s estimate of its actuarially calculated pension liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increase, and form of annuity payment upon retirement.

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. The following material misstatement detected as a result of our audit procedures was corrected by management:

Cash and other liabilities were decreased by \$7,290.

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 12, 2017.

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's 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