

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor Doug Burgum
The Legislative Assembly
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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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. Our opinion is not modified with respect to this matter.

Also discussed in Note 1 to the financial statements, the North Dakota Housing Finance Agency adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of net pension liability, schedule of employer contributions – pension, schedule of employer's share of net OPEB liability, and schedule of employer contributions – OPEB, 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 59 to 64 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 65 and 66 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 67 to 70 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 59 through 70 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 17, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's 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 17, 2018

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(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, 2018 and 2017. 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 FY2018, mortgage loans receivable increased \$120,049 to \$966,249. This included \$296,348 of new loans purchased, \$27,552 of Loans securitized into an MBS, \$154,978 of repaid principal on mortgage loans and an increase in loan premiums of \$6,148 and a decrease in mortgage loan loss reserve of \$83.

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 FY2018, Bonds Payable increased \$186,100 to \$972,308. This included the issuance of \$308,640 new Bonds, \$126,620 Bonds being called or maturing and a net increase in Bond premiums of \$4,080. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

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 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt.

The Agency borrowed \$32,038 from the Bank of North Dakota and repaid the entire principal plus interest during FY 2018. The beginning and ending balances were both \$0.

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 Agency's FY2018 net position increased \$8,495 to \$179,029 as a result of the year's program operations and financing activities. Included in this number is a decrease in the prior year's net position of \$161 due to a prior period adjustment with regards to GASB 75.

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.

FY2018 Income Before Transfers of \$8,693 was lower than FY2017 by \$1,191 as a result of the timing of Investment gains and the Cost of Issuance expenses for new Bond Issues.

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

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.

Operating revenues in FY2018 of \$39,840 were up \$1,837 as a result of higher mortgage interest income due to a larger mortgage loan receivable balance and slightly higher average mortgage loan interest rates. This was offset somewhat by lower gains on sales of investments and lower Fee 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 expenses for FY2018 of \$31,255 were up \$3,070 due to higher interest expenses with regards to a larger Bonds Payable balance. Also, pension expense and operating expenses were higher offset by lower Agency grant expenses.

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.

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, 2018 AND 2017
(In Thousands)

Condensed Statements of Net Position
June 30, 2018, 2017 and 2016
(In Thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percentage</u>
ASSETS					
Unrestricted current assets	\$ 7,344	\$ 6,261	\$ 5,459	\$ 1,083	17 %
Restricted current assets	209,491	146,734	245,050	62,757	43
Total current assets	<u>216,835</u>	<u>152,995</u>	<u>250,509</u>	<u>63,840</u>	<u>42</u>
Unrestricted noncurrent assets	4,271	3,728	3,169	543	15
Restricted noncurrent assets	963,015	830,338	747,439	132,677	16
Total noncurrent assets	<u>967,286</u>	<u>834,066</u>	<u>750,608</u>	<u>133,220</u>	<u>16</u>
Total assets	<u>\$1,184,121</u>	<u>\$ 987,061</u>	<u>\$1,001,117</u>	<u>\$197,060</u>	<u>20 %</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total deferred outflows of resources	<u>\$ 3,207</u>	<u>\$ 4,513</u>	<u>\$ 7,846</u>	<u>\$ (1,306)</u>	<u>(29) %</u>
LIABILITIES					
Current liabilities	\$ 45,940	\$ 51,670	\$ 64,999	\$ (5,730)	(11) %
Noncurrent liabilities	962,148	769,120	782,990	193,028	25
Total liabilities	<u>\$1,008,088</u>	<u>\$ 820,790</u>	<u>\$ 847,989</u>	<u>\$187,298</u>	<u>23 %</u>
DEFERRED INFLOWS OF RESOURCES					
Total deferred inflows of resources	<u>\$ 212</u>	<u>\$ 250</u>	<u>\$ 242</u>	<u>\$ (38)</u>	<u>(15) %</u>
NET POSITION					
Invested in capital assets	\$ 11	\$ 15	\$ -	\$ (4)	(27) %
Restricted for debt service	169,789	163,049	153,199	6,740	4
Unrestricted	9,228	7,470	7,533	1,758	24
Total net position	<u>\$ 179,028</u>	<u>\$ 170,534</u>	<u>\$ 160,732</u>	<u>\$ 8,494</u>	<u>5 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018, 2017 and 2016
(In Thousands)

	2018	2017	2016	Change	Percentage
OPERATING REVENUES					
Mortgage interest income	\$ 33,932	\$ 30,512	\$ 29,605	\$ 3,420	11 %
Investment income	2,772	2,883	2,614	(111)	(4)
Gain on sale of investment	182	1,098	420	(916)	(83)
Fee income	2,954	3,510	3,669	(556)	(16)
Total revenues	<u>39,840</u>	<u>38,003</u>	<u>36,308</u>	<u>1,837</u>	<u>5 %</u>
OPERATING EXPENSES					
Interest expense	21,385	18,213	18,375	3,172	17 %
Agency grants	242	1,284	786	(1,042)	(81)
Administrative and operating expenses	5,432	4,931	5,415	501	10
Salaries and benefits	3,589	3,480	3,264	109	3
Pension expense	580	275	146	305	111
OPEB expense	23	-	-	23	-
Depreciation	4	2	-	2	100
Total expenses	<u>31,255</u>	<u>28,185</u>	<u>27,986</u>	<u>3,070</u>	<u>11 %</u>
OPERATING INCOME	<u>8,585</u>	<u>9,818</u>	<u>8,322</u>	<u>(1,233)</u>	<u>(13) %</u>
NONOPERATING REVENUES (EXPENSES)					
Federal grants	14,823	12,801	12,066	2,022	16 %
Investment income	108	66	127	42	64
Federal grants	(14,823)	(12,801)	(12,265)	(2,022)	16
	<u>108</u>	<u>66</u>	<u>(72)</u>	<u>42</u>	<u>64 %</u>
INCOME BEFORE TRANSFERS	8,693	9,884	8,250	(1,191)	(12) %
TRANSFERS					
Transfers from Dept. of Commerce	-	-	211	-	-
Transfer in from Adjutant General	-	(43)	-	43	-
Transfers to Industrial Commission	(38)	(39)	(39)	1	(3)
CHANGE IN NET POSITION	<u>8,655</u>	<u>9,802</u>	<u>8,422</u>	<u>(1,147)</u>	<u>(12) %</u>
TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY STATED	170,534	160,732	152,310	9,802	6 %
GASB 75 ADJUSTMENT	(161)	-	-	(161)	-
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>170,373</u>	<u>160,732</u>	<u>152,310</u>	<u>9,641</u>	<u>6 %</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 179,028</u>	<u>\$ 170,534</u>	<u>\$ 160,732</u>	<u>\$ 8,494</u>	<u>5 %</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018 AND 2017
(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.

FY2018 Operating interest income of \$2,772 was down slightly from the prior year as a result of fewer dollars invested throughout the year with regards to bond funds. Mortgage loan funding has accelerated leaving less funds in the Proceeds GICs for extended periods of time. Investment contract rates continue to be quite low.

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.

Non-operating interest income represents earnings on the Agency investments, excluding the Homeownership funds. These funds are invested in US Treasury securities, mortgage backed securities or the Bank of North Dakota money market and demand accounts. The FY2018 Non-Operating Interest Income of \$108 was up \$42 as a result of temporarily funding mortgage loans as Non-purpose Investments with excess Agency funds. These mortgage loans are then purchased using Bond funds when they become available or securitized into a Mortgage Backed Security.

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.

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 western North Dakota continues to be strong with thousands of unfilled positions available. As people move into the area for employment, the need for affordable housing should increase. The current environment shows a more stable workforce and the oil boom appears to be controlled better than the original activity several years ago. Infrastructure such as roads has improved along with better living conditions for workers making western North Dakota a good place to live and raise a family. North Dakota's unemployment rate is one of the lowest in the nation which translates into the continued need for safe and affordable housing.

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, 2018 AND 2017
(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, 2018 AND 2017
(In Thousands)

	2018	2017
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 5,928	\$ 4,998
Due from State Agencies	9	1
Receivables		
Interest		
Loans	8	30
Investments	51	28
Due from HUD	152	132
Other	546	465
Current portion of service release premium	621	548
Prepaid expenses	29	59
Total unrestricted current assets	7,344	6,261
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	182,667	123,222
Receivables		
Current portion of loans receivable	23,209	20,452
Interest		
Loans	3,449	2,835
Investments	166	225
Total restricted current assets	209,491	146,734
Total current assets	216,835	152,995
NONCURRENT ASSETS - UNRESTRICTED		
Service release premium, net	4,260	3,713
Equipment, net	11	15
Total unrestricted noncurrent assets	4,271	3,728
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	943,040	825,748
Investments	19,975	4,590
Total restricted noncurrent assets	963,015	830,338
Total noncurrent assets	967,286	834,066
Total assets	1,184,121	987,061
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - pension	1,919	736
Deferred outflow - OPEB	49	-
Financial derivative instrument	1,239	3,777
Total deferred outflows of resources	3,207	4,513

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	\$ 13	\$ 14
Due to state agencies	14	9
Other	833	642
Current portion of compensated absences	229	202
Current portion of bonds payable	20,024	27,691
Accrued interest	12,650	10,165
Funds held in trust	12,136	12,852
Grant funds received in advance	41	95
Total current liabilities	45,940	51,670
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	121	138
Rebate due to IRS	38	102
Grant funds received in advance	4,369	4,317
Net pension liability	3,906	2,269
Net OPEB liability	191	-
Financial derivative instrument	1,239	3,777
Bonds payable, net of current portion	952,284	758,517
Total noncurrent liabilities	962,148	769,120
Total liabilities	1,008,088	820,790
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow - pension	198	250
Deferred inflow - OPEB	14	-
Total deferred inflows of resources	212	250
NET POSITION		
Net investment in capital assets	11	15
Restricted for debt service	169,789	163,049
Unrestricted	9,228	7,470
Total net position	\$ 179,028	\$ 170,534

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, 2018 AND 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Mortgage interest income	\$ 33,932	\$ 30,512
Investment income	2,772	2,883
Gain on sale of investments	182	1,098
Fee income	2,954	3,510
Total revenues	39,840	38,003
OPERATING EXPENSES		
Interest expense	21,385	18,213
Agency grants	242	1,284
Administrative and operating expenses	5,432	4,931
Salaries and benefits	3,589	3,480
Pension expense	580	275
OPEB expense	23	-
Depreciation	4	2
Total expenses	31,255	28,185
OPERATING INCOME	8,585	9,818
NONOPERATING REVENUES (EXPENSES)		
Federal grants	14,823	12,801
Investment income	108	66
Federal grants	(14,823)	(12,801)
Total nonoperating revenues (expenses)	108	66
INCOME BEFORE TRANSFERS	8,693	9,884
TRANSFERS		
Transfer out to Adjutant General	-	(43)
Transfers out to Industrial Commission	(38)	(39)
CHANGE IN NET POSITION	8,655	9,802
TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	170,534	160,732
GASB 75 ADJUSTMENT (SEE NOTE 23)	(161)	-
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	170,373	160,732
TOTAL NET POSITION, END OF YEAR	\$ 179,028	\$ 170,534

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
OPERATING ACTIVITIES		
Receipts from customers	\$ 196,057	\$ 203,099
Proceeds from sale of loans receivable	27,552	47,376
Grant funds received in advance	(2)	(61)
Payment of grants	(263)	(1,275)
Payments to service providers		
State agencies	(216)	(535)
Mortgage loan purchases	(296,347)	(301,315)
Other	(18,026)	(9,370)
Payments to employees	(3,587)	(3,479)
Net cash used by operating activities	(94,832)	(65,560)
NONCAPITAL FINANCING ACTIVITIES		
Principal payments on loan from Bank of North Dakota	(32,038)	(127,351)
Principal payments on bonds payable	(126,620)	(249,400)
Proceeds from loan borrowings from Bank of North Dakota	32,038	113,910
Proceeds from bond issuance	316,064	241,161
Interest paid on loans and bonds	(18,900)	(17,985)
Proceeds from federal grants	14,823	12,801
Payment of federal grants	(14,823)	(12,801)
Transfer out to Adjutant General	-	(43)
Transfers to Industrial Commission	(38)	(39)
Net cash provided (used) by noncapital financing activities	170,506	(39,747)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	-	(17)
INVESTING ACTIVITIES		
Purchase of investments	(19,583)	(488)
Proceeds from sale of investments	3,811	14,044
Interest received from investments	473	554
Net cash provided (used) by for investing activities	(15,299)	14,110
NET CHANGE IN CASH AND CASH EQUIVALENTS	60,375	(91,214)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,220	219,434
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 188,595	\$ 128,220
CASH AND CASH EQUIVALENTS - UNRESTRICTED	\$ 5,928	\$ 4,998
CASH AND CASH EQUIVALENTS - RESTRICTED	182,667	123,222
	\$ 188,595	\$ 128,220

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET		
CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 8,585	\$ 9,818
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	4	2
Amortization		
Original issue discounts and premiums	(3,344)	(3,285)
Service release premium	919	871
Reclassification of interest income/expense to other activities	21,442	18,068
Changes in deferred inflows and outflows:		
Deferred outflow - pension	(1,183)	(523)
Deferred outflow - OPEB	(19)	-
Deferred inflows - pension	(52)	8
Deferred inflows - OPEB	14	-
Changes in assets and liabilities:		
Decrease in due from HUD	(21)	14
Decrease in due from State Agencies	(7)	1
Decrease in other receivables	(59,177)	87
Increase in service release premium	(1,538)	(1,482)
Increase in prepaid expenses	31	(4)
Increase in loan interest receivable	(592)	(95)
Increase in loans receivable	(120,048)	(90,433)
Decrease in due to HUD	(1)	(4)
Decrease in due to State Agencies	5	(22)
Increase in rebate due to IRS	(64)	89
Decrease in other liabilities	59,285	(136)
Increase in compensated absences	10	22
Increase funds held in trust	(716)	914
Increase net pension liability	1,637	614
Increase (decrease) in deferred credits	-	(23)
Decrease grant funds received in advance	(2)	(61)
Net cash used by operating activities	\$ (94,832)	\$ (65,560)
Non-cash disclosures:		
Decrease in fair value of investments	\$ (388)	\$ (461)

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENT OF APPROPRIATIONS
FOR THE BIENNIUM ENDED JUNE 30, 2019
(In Thousands)

	2017-2019 Appropriations Original	2017-2019 Appropriations As Adjusted	2017-2019 Expenditures	Unexpended Appropriations
Administrative Expenses:				
Salaries, wages and benefits	\$ 7,892	\$ 7,892	\$ 3,798	\$ 4,094
Operating expenses	4,743	4,743	2,324	2,419
Grants, benefits and claims	31,795	31,795	15,065	16,730
Contingency	100	100	-	100
Total	\$ 44,530	\$ 44,530	\$ 21,187	\$ 23,343

- (1) The Agency's total appropriations of \$44,530 consist of funding of \$31,245 from federal funds and \$13,285 from special funds. The Agency has a continuing appropriation for operating expenses authorized by Section 1 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	\$ 21,187
Less: Grants, benefits and claims	(15,065)
Administrative and operating expenses relating to	
Rental, Homeownership Bonds and Agency expenses	2,035
Amortization of service release premium	917
Interest expense for the Agency	(53)
Depreciation	4
Total administrative and operation expenses, salaries and benefits, and depreciation	<u>\$ 9,025</u>

See Notes to the Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(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, 2018 AND 2017
(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, 2018 AND 2017
(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, 2018 AND 2017
(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, 2018 AND 2017
(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.

Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 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

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.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

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.

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.

Implementation of New Accounting Principle

The Agency implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during the year ended June 30, 2018. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

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, 2018 and 2017 were \$18,297 and \$18,122, 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, 2018 and 2017 were \$18,064 and \$17,850, respectively.

The carrying amounts of the Agency's cash and cash equivalents as reported on the balance sheet at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 5,928	\$ 4,998
Total cash and cash equivalents	<u>\$ 5,928</u>	<u>\$ 4,998</u>
Restricted		
Cash and cash equivalents		
Deposits at Bank of North Dakota	\$ 12,136	\$ 12,852
Deposits at Wilmington Trust	4,214	5,132
Cash and cash equivalents held in trust	21,693	35,379
Fixed rate investment agreements reported as cash equivalents	<u>144,624</u>	<u>69,859</u>
Total cash and cash equivalents	<u>\$ 182,667</u>	<u>\$ 123,222</u>

NOTE 3 INVESTMENTS

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

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

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, 2018:

	<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	\$ 1,998	\$ 1,998	\$ -	\$ -	\$ -
Mortgage Backed Securities	17,977	-	-	-	17,977
Total Debt Securities	<u>\$ 19,975</u>	<u>\$ 1,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,977</u>

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	2,436	-	-	-	2,436
Total Debt Securities	<u>\$ 4,590</u>	<u>\$ -</u>	<u>\$ 2,154</u>	<u>\$ -</u>	<u>\$ 2,436</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, 2018, the Agency owned \$7,873 and the 1994 General Resolution Bond Issues owned \$10,104 of the \$17,977 Mortgage Backed Securities. The \$10,104 is restricted funds through the Bond Issue requirements. The Agency operating fund investment securities with a carrying amount of approximately \$9,870, (including the \$7,873 MBS owned by the Agency), at June 30, 2018 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, 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.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the balances of assets, deferred outflows of resources and deferred inflows of resources measured at fair value on a recurring basis at June 30, 2018.

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Mortgage-backed securities				
Agency	\$ 17,977	\$ -	\$ 17,977	\$ -
US treasuries	1,998	1,998	-	-
Total	<u>\$ 19,975</u>	<u>\$ 1,998</u>	<u>\$ 17,977</u>	<u>\$ -</u>
Interest rate swap	<u>\$ 1,239</u>	<u>\$ -</u>	<u>\$ 1,239</u>	<u>\$ -</u>

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

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
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>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 5 LOANS RECEIVABLE

Loans receivable at June 30, 2018 and 2017, consist of the following:

	2018	2017
Restricted:		
Agency operating funds	\$ 5,043	\$ 12,604
Less: current portion	227	317
	\$ 4,816	\$ 12,287
 Restricted:		
Homeownership bond funds	\$ 961,206	\$ 833,596
Less: current portion	22,982	20,135
	\$ 938,224	\$ 813,461

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 8.95% for the year ended June 30, 2018 and from 0.00% to 9.35% for the year ended June 30, 2017 with maturities of such loans ranging from less than one year to 40 years.

Included in Homeownership and Agency mortgage loans are loans totaling \$165 which have been foreclosed on and are owned by the Agency (REO), \$15 in real estate loans in judgment (REJ), and 63 loans totaling \$6,877 that were in the foreclosure process at June 30, 2018. At June 30, 2017, Homeownership and Agency mortgage loans included 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 that 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, 2018 AND 2017
(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:

	2018	2017
Due from HUD	\$ 152	\$ 132
Due to HUD	\$ 13	\$ 14

NOTE 7 EQUIPMENT

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

	Equipment	Accumulated Depreciation	Net Equipment
Balance July 1, 2016	\$ 197	\$ 197	\$ -
Additions	17	2	
Deletions	(11)	(11)	
Balance June 30, 2017	\$ 203	\$ 188	\$ 15
Additions	-	4	
Deletions	-	-	
Balance June 30, 2018	\$ 203	\$ 192	\$ 11

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 8 OTHER RECEIVABLES

A detail of other receivables as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted:		
Receivable from developers	\$ 263	\$ 156
Accounts receivable	283	309
	<u>\$ 546</u>	<u>\$ 465</u>

NOTE 9 OTHER LIABILITIES

A detail of other liabilities as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Remarketing fees	\$ 22	\$ 22
Commitment fees	87	82
Accounts payable	721	468
NIPB fee	3	-
Trustee fees	-	70
	<u>\$ 833</u>	<u>\$ 642</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 10 RELATED PARTY TRANSACTIONS

The Agency had the following transactions with related parties as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents - unrestricted		
Bank of North Dakota	\$ 5,928	\$ 4,998
Cash and cash equivalents - restricted		
Bank of North Dakota	\$ 12,136	\$ 12,852
Due from state agencies		
Housing Incentive Fund	\$ 4	\$ 1
Department of Commerce	5	-
	<u>\$ 9</u>	<u>\$ 1</u>
Due to state agencies		
Information Technology Department	\$ 7	\$ 6
Attorney General	5	1
Department of Transportation	1	1
Office of Management and Budget	1	1
	<u>\$ 14</u>	<u>\$ 9</u>
Transfers out		
Adjutant General	\$ -	\$ 43
Industrial Commission	38	39
	<u>\$ 38</u>	<u>\$ 82</u>
Administrative and operating expenses		
Bank of North Dakota		
Line of credit interest expense	\$ 53	\$ 380
Safekeeping fees	-	1
Information Technology Department		
Telephone and data processing	19	19
Data processing	67	59
Attorney General		
Legal fees	56	26
Office of Management and Budget		
Supplies and conferences	11	18
Risk management premium	1	1
Indirect cost allocation	1	1
Housing Incentive Fund		
Administration and support	19	19
Department of Transportation		
Travel	6	8
Department of Insurance		
State fire and tornado fund premium	-	1

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 11 LONG-TERM LIABILITIES

Change in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance (as restated) 7/1/17	Additions	Reductions	Balance 6/30/18	Amounts Due Within One Year
Homeownership bond funds, par	\$ 768,640	\$ 308,640	\$ 126,620	\$ 950,660	\$ 18,095
Premium on bond funds	17,568	7,424	3,344	21,648	1,929
Compensated absences	340	225	215	350	229
Net pension liability	2,269	2,749	1,112	3,906	-
Net OPEB liability	191	65	65	191	-
	<u>\$ 789,008</u>	<u>\$ 319,103</u>	<u>\$ 131,356</u>	<u>\$ 976,755</u>	<u>\$ 20,253</u>

See Note 14 and Note 15 for more information on the net pension liability and net OPEB liability, respectively. The net OPEB liability opening balance shows the effects of the GASB 75 adjustment, see Note 23 for more details.

A summary of changes in long-term liabilities 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
Compensated absences	319	224	203	340	202
Net pension liability	1,655	1,124	510	2,269	-
	<u>\$ 799,706</u>	<u>\$ 242,509</u>	<u>\$ 253,398</u>	<u>\$ 788,817</u>	<u>\$ 27,893</u>

See Note 14 and Note 15 for more information on the net pension liability and net OPEB liability, respectively.

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.

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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>
2019	\$ 18,095	\$ 29,485	\$ 47,580
2020	37,640	28,968	66,608
2021	36,910	28,219	65,129
2022	35,145	27,412	62,557
2023	35,225	26,603	61,828
2024 - 2028	170,255	119,621	289,876
2029 - 2033	162,900	94,618	257,518
2034 - 2038	172,925	67,733	240,658
2039 - 2043	159,770	38,439	198,209
2044 - 2048	116,815	11,781	128,596
2049 - 2050	4,980	116	5,096
Premiums	21,648	(21,648)	-
	<u>\$ 972,308</u>	<u>\$ 451,347</u>	<u>\$ 1,423,655</u>

Schedules of Bonds Payable

The following summarizes the Agency's bonds payable outstanding at June 30, 2018 and 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>2018</u>	<u>2017</u>
Series 2007CD			
Term Bond 1/1/38 (Premium)	5.75	\$ -	\$ 870
Premium (Discount)		-	12
Series 2008 A			
Term Bond 1/1/39	Variable	-	13,155
Premium (Discount)		-	278
Series 2008 B			
Term Bond 07/1/2038	Variable	12,735	12,735
Series 2008 D			
Term Bond 7/1/39	Variable	-	21,850

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	Interest Rate	2018	2017
Series 2009 CD			
Serial Bonds 1/1/11 - 7/1/21	1.00 - 4.13	\$ 395	\$ 1,795
PAC Term Bond 1/1/2029 (Premium)	5.25	630	1,905
Premium (Discount)		7	26
Series 2010 AB			
Serial Bonds 7/1/11 - 7/1/21	0.75 - 4.05	-	860
PAC Term Bond 7/1/2028 (Premium)	5.00	1,055	2,045
Premium (Discount)		6	14
Series 2010 CD			
Serial Bonds 7/1/12 - 7/1/20	0.90 - 3.40	-	1,525
Term Bond 7/1/26	4.13	-	15
Term Bond 1/1/29 (Premium)	4.50	960	1,605
Premium (Discount)		5	18
Series 2010 EF			
Serial Bonds 7/1/11 - 7/1/20	0.60 - 3.45	765	2,740
PAC Term Bond 7/1/2041 (Premium)	4.50	2,425	3,520
PAC Term Bond 1/1/2035 (Premium)	4.50	2,950	4,315
Premium (Discount)		57	107
Series 2011 AB			
Serial Bonds 7/1/12 - 7/1/22	0.35 - 4.00	1,945	6,240
Term Bond 1/1/28 (Premium)	4.50	2,285	3,160
Premium (Discount)		17	43
Series 2011 CD			
Serial Bonds 1/1/13 - 7/1/22	0.85 - 3.70	2,550	3,845
Term Bond 7/1/28 (Premium)	4.25	760	1,085
Premium (Discount)		5	9
Series 2012 AB			
Serial Bonds 7/1/13 - 7/1/21	0.60 - 3.05	5,560	8,130
Serial Bonds 7/1/21 - 7/1/24	2.75 - 3.05	6,165	6,165
Term Bond 7/1/27	3.35	1,240	2,485
Term Bond 7/1/42 (Premium)	3.75	7,795	10,170
Premium (Discount)		334	463
Series 2013 A			
Serial Bonds 7/1/14 - 7/1/23	0.45 - 3.80	3,650	8,810
Term Bond 7/1/43 (Premium)	3.50	11,625	15,010
Premium (Discount)		160	259

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	Interest Rate	2018	2017
Series 2014 AB			
Serial Bonds 1/1/15 - 7/1/25	0.20 - 3.15	\$ 14,300	\$ 18,090
Term Bond 7/1/34 (Premium)	4.00	12,185	15,550
Term Bond 7/1/44	Variable	27,055	27,055
Premium (Discount)		1,088	1,298
Series 2015A			
Serial Bonds 7/1/15 - 7/1/26	0.20 - 3.10	16,700	22,270
Term Bond 7/1/30	3.38	7,200	8,550
Term Bond 1/1/38 (Premium)	4.00	12,380	14,840
Premium (Discount)		911	1,220
Series 2015BC			
Serial Bonds 1/1/16 - 7/1/25	0.40 - 3.05	18,000	22,160
Term Bond 1/1/36 (Premium)	4.00	17,525	20,090
Term Bond 1/1/46	Variable	17,700	17,700
Premium (Discount)		1,258	1,500
Series 2015DE			
Serial Bonds 7/1/16 - 1/1/26	0.45 - 2.90	19,915	23,680
Term Bond 7/1/46 (Premium)	4.00	21,600	23,955
Term Bond 7/1/36	Variable	25,000	25,000
Premium (Discount)		1,544	1,784
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	550	6,405
Serial Bonds 1/1/19 - 7/1/27	1.05 - 2.60	46,565	46,565
Term Bond 7/1/31	2.95	19,765	19,820
Term Bond 1/1/35	3.20	14,110	14,150
Term Bond 1/1/47 (Premium)	4.00	46,045	52,175
Premium (Discount)		3,646	4,270
Series 2016CDE			
Serial Bonds 1/1/17 - 7/1/22	1.00 - 1.95	4,055	5,135
Serial Bonds 7/1/22 - 7/1/25	1.70 - 2.15	8,350	8,350
Serial Bonds 7/1/25 - 7/1/28	2.15 - 2.60	13,750	13,905
Term Bond 7/1/32	2.85	21,435	22,825
Term Bond 1/1/36	3.15	20,970	22,330
Term Bond 7/1/46 (Premium)	3.50	48,510	54,005
Premium (Discount)		3,620	4,160

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	Interest Rate	2018	2017
Series 2017A			
Serial Bonds 1/1/18 - 7/1/28	1.10 - 3.05	\$ 32,700	\$ 38,605
Term Bond 7/1/32	3.55	10,465	10,465
Term Bond 7/1/34	3.70	4,530	4,530
Term Bond 7/1/47 (Premium)	4.00	26,200	26,400
Premium (Discount)		1,800	2,107
Series 2017BC			
Serial Bonds 7/1/18 - 7/1/24	1.60 - 3.15	11,060	11,060
Term Bond 1/1/47	Variable	13,940	13,940
Series 2017DE			
Serial Bonds 7/1/18 - 7/1/22	1.05 - 1.90	7,265	-
Serial Bonds 7/1/22 - 7/1/28	1.50 - 2.70	13,975	-
Term Bonds 7/1/32	3.15	10,625	-
Term Bonds 7/1/37	3.45	15,925	-
Term Bonds 7/1/40	3.55	8,960	-
Term Bonds 7/1/47 (Premium)	4.00	30,410	-
Premium (Discount)		2,911	-
Series 2017FGH			
Serial Bonds 1/1/19 - 1/1/25	1.55 - 2.55	15,450	-
Serial Bonds 1/1/25 - 7/1/208	2.55 - 3.00	9,875	-
Term Bonds 7/1/31	3.35	9,155	-
Term Bonds 7/1/48 (Premium)	4.00	32,720	-
Term Bond 7/1/39	Variable	28,250	-
Premium (Discount)		2,324	-
Series 2018A			
Serial Bonds 7/1/19 - 7/1/29	1.85 - 3.20	25,180	-
Term Bonds 7/1/33	3.55	11,710	-
Term Bonds 7/1/38	3.75	17,120	-
Term Bonds 1/1/42	3.85	13,490	-
Term Bonds 7/1/49 (Premium)	4.00	32,500	-
Premium (Discount)		1,955	-
Series 2018BC			
Serial Bonds 7/1/19 - 7/1/28	2.50 - 3.80	15,645	-
Term Bond 1/1/49	Variable	9,355	-
		<u>\$ 972,308</u>	<u>\$ 786,208</u>

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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.

Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of \$972,308 maturing at various times from July 1, 2018 through July 1, 2049. 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 \$126,620 and \$18,847, respectively for the year ended June 30, 2018. Principal and interest paid for the current year and total customer net revenues were \$240,400 and \$17,740, respectively for the year ended June 30, 2017.

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.

NOTE 12 FINANCIAL DERIVATIVE INSTRUMENT

Objective of the Interest Rate Swap

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

Terms

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

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Credit Risk

As of June 30, 2018, the Agency had five swaps that had a positive fair value totaling \$2,267. As of June 30, 2017, the Agency had one swap that had a positive fair value totaling \$94. 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, the Royal Bank of Canada, and Wells Fargo 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, 2018 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$1,588 and the swap providers owed the Agency a variable rate on the notional amounts of \$1,050 making the net payment that the Agency owe the swap providers \$538.

Fair Value

Due to the difference in the variable rate indices, the swaps had a net negative fair value¹⁰ of \$1,239 and \$3,777 at June 30, 2018 and 2017. 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, 2018 and 2017. 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, 2018 and 2017. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

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Termination Risk

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

Rollover Risk

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

The terms of the interest rate swaps at June 30, 2018 are as follows:

1	Bond Series	2008 B	2014 B	2015 C	2015 E
2	Issuance Date	3/26/2008	6/24/2014	6/25/2015	5/1/2016
3	Maturity Date	7/1/2038	7/1/2044	1/1/2046	7/1/2036
4	Notional Amount	6	27,055	17,700	25,000
5	Variable-rate Bonds	6	27,055	17,700	25,000
6	Fixed Rate	4.725%	2.890%	2.486%	2.257%
7	LIBOR Percentage	100.00%	65.80%	66.20%	66.40%
8	Additional Percentage	0.00%	0.17%	0.10%	0.22%
9	Bonds Variable-rate	2.00000%	1.53000%	2.24000%	N/A
10	Fair Value	(255)	(491)	170	356
11	Percentage of LIBOR	2.06840%	1.53101%	1.46928%	1.59342%
12	Synthetic Rate	4.65660%	2.88990%	3.25672%	0.65800%
13	Actual Synthetic Rate	4.98024%	2.78873%	3.20389%	2.06840%
14	Change in Fair Value	(295)	(827)	(504)	(844)
15	Optional Termination Date	1/1/2020	N/A	7/1/2020	7/1/2020

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1	Bond Series	2015 F	2017C	2017H	2018C
2	Issuance Date	12/8/2015	5/10/2017	12/21/2017	6/14/2018
3	Maturity Date	1/1/2047	7/1/2047	7/1/2039	1/1/2049
4	Notional Amount	23,145	20,545	28,250	9,355
5	Variable-rate Bonds	23,145	20,545	28,250	9,355
6	Fixed Rate	2.320%	2.783%	2.266%	3.515%
7	LIBOR Percentage	100.00%	100.00%	66.40%	100.00%
8	Additional Percentage	0.00%	0.00%	0.09%	0.00%
9	Bonds Variable-rate	2.00000%	2.00000%	1.50000%	2.00000%
10	Fair Value	1,016	546	179	(282)
11	Percentage of LIBOR	2.06840%	2.06840%	1.46342%	2.06840%
12	Synthetic Rate	2.25160%	2.71410%	2.30258%	3.44660%
13	Actual Synthetic Rate	2.30706%	2.71646%	2.34687%	3.43035%
14	Change in Fair Value	922	(1,041)	179	(282)
15	Optional Termination Date	1/1/2025	7/1/2027	7/1/2023	7/1/2027

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	3/26/2008	8/5/2008	6/24/2014	6/25/2015
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	5/10/2017	
3	Maturity Date	7/1/2036	1/1/2047	7/1/2047	
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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Swap Payments and Associated Debt

Using rates as of June 30, 2018, 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, 2018. 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	
2019	\$ 2,545	\$ 2,376	\$ 1,423	\$ 6,344
2020	2,545	2,325	1,402	6,272
2021	2,335	2,277	1,383	5,995
2022	2,130	2,233	1,366	5,729
2023	1,945	2,194	1,351	5,490
2024 - 2028	18,970	10,216	6,436	35,622
2029 - 2033	32,275	8,608	5,415	46,298
2034 - 2038	49,800	5,866	3,561	59,227
2039 - 2043	32,555	2,284	1,366	36,205
2044 - 2048	11,785	261	137	12,183
2049 - 2053	120	-	-	120
	<u>\$ 157,005</u>	<u>\$ 38,640</u>	<u>\$ 23,840</u>	<u>\$ 219,485</u>

NOTE 13 LOAN FROM BANK OF NORTH DAKOTA

The following is a summary of changes in loan from the Bank of North Dakota for the years ended June 30, 2018 and 2017:

Balance July 1, 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	\$ -
Principal payments on advance from Bank of North Dakota	(32,038)
Loan advance from Bank of North Dakota	<u>32,038</u>
Balance June 30, 2018	<u>\$ -</u>

The above line of credit is used by the Agency to fund mortgages. As of June 30, 2018, the line of credit has no outstanding balance, has a credit limit of \$60,000 and expires on July 1, 2019. 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, 2017, 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 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%.

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NOTE 14 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine 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; one member elected by the retired public employees, and 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, 2018 and 2017, the Agency reported a liability of \$3,906 and \$2,269 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017, the Agency's proportion was 0.242994 percent, which was an increase of 0.010153 percent from its proportion measured of 0.232841 as of June 30, 2016.

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For the year ended June 30, 2018, the Agency recognized pension expense of \$580. At June 30, 2018, 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	\$ 23	\$ (20)
Changes of assumptions	1,602	(88)
Net difference between projected and actual earnings on pension plan investments	52	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	63	(90)
Employer contributions subsequent to the measurement date	<u>179</u>	<u>-</u>
Total	<u>\$ 1,919</u>	<u>\$ (198)</u>

\$179 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, 2019.

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:		
2019	\$	329
2020		401
2021		347
2022		297
2023		168

NORTH DAKOTA HOUSING FINANCE AGENCY
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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>\$ 736</u>	<u>\$ (250)</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.

NORTH DAKOTA HOUSING FINANCE AGENCY
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Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions:

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%.

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.

NORTH DAKOTA HOUSING FINANCE AGENCY
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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, 2018 and 2017 is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return 2018	Long-Term Expected Real Rate of Return 2017
Domestic Equity	31%	6.05%	6.90%
International Equity	21%	6.70%	7.55%
Private Equity	5%	10.20%	11.30%
Domestic Fixed Income	17%	1.43%	1.52%
International Fixed Income	5%	-0.45%	0.45%
Global Real Assets	20%	5.16%	5.38%
Cash Equivalents	1%	0.00%	0.00%

Discount rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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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 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate at June 30, 2018:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$ 5,302	\$ 3,906	\$ 2,744

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, 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

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.

NORTH DAKOTA HOUSING FINANCE AGENCY
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NOTE 15 OPEB PLAN

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Agency reported a liability of \$191 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Agency's proportion was 0.241038 percent.

For the year ended June 30, 2018, the Employer recognized OPEB expense of \$23. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (5)
Changes of assumptions	19	-
Net difference between projected and actual earnings on pension plan investments	-	(7)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(2)
Employer contributions subsequent to the measurement date	<u>30</u>	<u>-</u>
Total	<u><u>\$ 49</u></u>	<u><u>\$ (14)</u></u>

\$30 reported as deferred outflows of resources related to OPEB resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

NORTH DAKOTA HOUSING FINANCE AGENCY
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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended June 30:		
2018	\$	-
2019		-
2020		-
2021		-
2022		2
2023		2
Thereafter		1

Actuarial assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, 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%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

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Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net pension liability	\$ 239	\$ 191	\$ 149

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB 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.

NOTE 16 COMMITMENTS AND CONTINGENCIES

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

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

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

	2018	2017
Commitments to extend credit	\$ 35,812	\$ 72,586
Loan Acquisition Fund	\$ 11,136	\$ 16,459

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, 2018 and 2017, the Agency had outstanding guarantees on loans owned by financial institutions in the amount of \$0 and \$435.

NOTE 17 REBATE DUE TO IRS

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

	2018	2017
Series 16 AB	\$ -	\$ 70
Series 15 A	38	32
Total	\$ 38	\$ 102

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

	2018	2017
Beginning balance, July 1	\$ 102	\$ 13
Additions	6	89
Reductions	(70)	-
Ending balance, June 30	\$ 38	\$ 102
Amounts due within one year	\$ -	\$ -

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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 restricted 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 is also covered through a casualty obligatory excess of loss reinsurance contract that RMF has with an outside party that provides additional coverage amount 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.

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NOTE 20 SEGMENT INFORMATION

The Agency maintains two Enterprise Funds which provide loans to finance construction of residential housing and single family homeownership. Statement of Net Position segment information as of and for the year ended June 30, 2018, was as follows:

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Statement of Net Position				
Current assets - other	\$ 22,105	\$ 223,945	\$ (29,215)	\$ 216,835
Capital assets - net	11	-	-	11
Noncurrent assets - other	9,076	958,199	-	967,275
Total assets	<u>31,192</u>	<u>1,182,144</u>	<u>(29,215)</u>	<u>1,184,121</u>
Deferred outflow of resources	<u>1,968</u>	<u>1,239</u>	<u>-</u>	<u>3,207</u>
Current liabilities - other	15,122	60,033	(29,215)	45,940
Noncurrent liabilities - other	8,587	953,561	-	962,148
Total liabilities	<u>23,709</u>	<u>1,013,594</u>	<u>(29,215)</u>	<u>1,008,088</u>
Deferred inflow of resources	<u>212</u>	<u>-</u>	<u>-</u>	<u>212</u>
Invested in capital assets	11	-	-	11
Net position - unrestricted	9,228	-	-	9,228
Net position - restricted	-	169,789	-	169,789
Total net position	<u>\$ 9,239</u>	<u>\$ 169,789</u>	<u>\$ -</u>	<u>\$ 179,028</u>

Statement of Net Position 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	<u>39,170</u>	<u>973,460</u>	<u>(25,569)</u>	<u>987,061</u>
Deferred outflow of resources	<u>736</u>	<u>3,777</u>	<u>-</u>	<u>4,513</u>
Current liabilities - other	25,447	51,792	(25,569)	51,670
Noncurrent liabilities - other	6,724	762,396	-	769,120
Total liabilities	<u>32,171</u>	<u>814,188</u>	<u>(25,569)</u>	<u>820,790</u>
Deferred inflow of resources	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
Invested in capital assets	15	-	-	15
Net position - unrestricted	7,470	-	-	7,470
Net position - restricted	-	163,049	-	163,049
Total net position	<u>\$ 7,485</u>	<u>\$ 163,049</u>	<u>\$ -</u>	<u>\$ 170,534</u>

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Statement of Revenues, Expenses and Change in Fund Net Position and Statement of Cash Flows segment information as of and for the year ended June 30, 2018, was as follows:

	Agency Operating Funds	Homeownership Bond Funds	Eliminations	Total Enterprise
Statement of Revenues, Expenses and Change in Fund Net Position				
Operating revenues				
Mortgage interest income	\$ 159	\$ 33,773	\$ -	\$ 33,932
Investment income	-	2,772	-	2,772
Gain on sale of investments	-	182	-	182
Fee income	8,799	-	(5,845)	2,954
Depreciation	(4)	-	-	(4)
Other operating expenses	(7,851)	(29,245)	5,845	(31,251)
Operating income	<u>1,103</u>	<u>7,482</u>	<u>-</u>	<u>8,585</u>
Nonoperating revenues (expenses)				
Federal grants	14,823	-	-	14,823
Investment income	108	-	-	108
Federal grants	(14,823)	-	-	(14,823)
Transfers	(38)	-	-	(38)
Change in net position	<u>1,173</u>	<u>7,482</u>	<u>-</u>	<u>8,655</u>
Total net position, beginning of year, as originally stated	7,485	163,049	-	170,534
GASB 75 adjustment	(161)	-	-	(161)
Total net position, beginning of year, restated	<u>7,324</u>	<u>163,049</u>	<u>-</u>	<u>170,373</u>
Equity transfer in (out)	742	(742)	-	-
Total net position, end of year	<u>\$ 9,239</u>	<u>\$ 169,789</u>	<u>\$ -</u>	<u>\$ 179,028</u>
Statement of Cash Flows				
Net cash used by operating activities	\$ (39)	\$ (94,793)	\$ -	\$ (94,832)
Net cash used for noncapital financing activities	3,841	166,665	-	170,506
Net cash from (used by) investing activities	(3,589)	(11,710)	-	(15,299)
Change in cash and cash equivalents	213	60,162	-	60,375
Cash and cash equivalents, beginning of year	17,851	110,369	-	128,220
Cash and cash equivalents, end of year	<u>\$ 18,064</u>	<u>\$ 170,531</u>	<u>\$ -</u>	<u>\$ 188,595</u>

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Statement of Revenues, Expenses and Change in Fund Net Position and Statement of Cash Flows 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 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
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)	<u>120</u>	<u>(120)</u>	<u>-</u>	<u>-</u>
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 from 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 investing activities	<u>9,308</u>	<u>4,802</u>	<u>-</u>	<u>14,110</u>
Change in cash and cash equivalents	630	(91,844)	-	(91,214)
Cash and cash equivalents, beginning of year	<u>17,221</u>	<u>202,213</u>	<u>-</u>	<u>219,434</u>
Cash and cash equivalents, end of year	<u>\$ 17,851</u>	<u>\$ 110,369</u>	<u>\$ -</u>	<u>\$ 128,220</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 21 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:

<u>Year ending June 30,</u>	
2019	\$ 206

Total rental expense was \$219 and \$233 for the years ended June 30, 2018 and 2017.

NOTE 22 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

NOTE 23 GASB 75 ADJUSTMENT

The Agency adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required a prior period adjustment to net OPEB liability and deferred outflows as of July 1, 2017. The cumulative effect of implementing this GASB Statement was an increase in net OPEB liability of \$191 and increase of deferred outflows – OPEB of \$30 on the Statement of Net Position. The adjustments resulted in a net decrease of \$161 in net position on the Statement of Revenues, Expenses and Changes in Net Position.

NORTH DAKOTA HOUSING FINANCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 24 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

NOTE 25 SUBSEQUENT EVENTS

The Agency issued Series 2018D Homeownership Revenue Bonds totaling \$125,000. The bonds have an interest rate ranging from 1.55% to 4.25% and mature between July 1, 2019 and January 1, 2049.

NORTH DAKOTA HOUSING FINANCE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

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

Schedule of Employer's Share of Net Pension Liability				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.242994%	0.232841%	0.243446%	0.252770%
Employer's proportionate share of the net pension liability (asset)	\$ 3,906	\$ 2,269	\$ 1,655	\$ 1,604
Employer's covered-employee payroll	2,481	2,346	2,169	2,129
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.44%	96.72%	76.30%	75.34%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

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

Schedule of Employer Contributions				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 179	\$ 180	\$ 170	\$ 165
Contributions in relation to the statutorily required contribution	(179)	(176)	(165)	(162)
Contribution deficiency (excess)	-	4	5	3
Employer's covered-employee payroll	2,510	2,474	2,314	2,229
Contributions as a percentage of covered-employee payroll	7.13%	7.11%	7.13%	7.27%

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

NORTH DAKOTA HOUSING FINANCE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

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

Schedule of Employer's Share of Net OPEB Liability

	2018
Employer's proportion of the net pension liability (asset)	0.241038%
Employer's proportionate share of the net pension liability (asset)	\$ 191
Employer's covered-employee payroll	2,608
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total pension liability	59.78%

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

Schedule of Employer Contributions

	2018
Statutorily required contribution	\$ 30
Contributions in relation to the statutorily required contribution	(30)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	2,661
Contributions as a percentage of covered-employee payroll	1.14%

*Complete data for these schedules is not available prior to 2018.

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
ASSETS								
CURRENT ASSETS - UNRESTRICTED								
Cash and cash equivalents	\$ 5,928	\$ -	\$ -	\$ -	\$ 5,928	\$ -	\$ 5,928	\$ 4,998
Due from State Agencies	9	-	-	-	9	-	9	1
Receivables								
Interest								
Loans	8	-	-	-	8	-	8	30
Investments	51	-	-	-	51	-	51	28
Due from HUD	152	-	-	-	152	-	152	132
Other	2,944	-	-	-	2,944	(2,398)	546	465
Current portion of service release premium	621	-	-	-	621	-	621	548
Prepaid expenses	29	-	-	-	29	-	29	59
Total unrestricted current assets	<u>9,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,742</u>	<u>(2,398)</u>	<u>7,344</u>	<u>6,261</u>
CURRENT ASSETS - RESTRICTED								
Cash and cash equivalents	12,136	156,817	13,714	170,531	182,667	-	182,667	123,222
Receivables								
Current portion of loans receivable	227	19,533	3,449	22,982	23,209	-	23,209	20,452
Interest								
Loans	-	2,949	500	3,449	3,449	-	3,449	2,835
Investments	-	162	4	166	166	-	166	225
Other	-	18,867	7,950	26,817	26,817	(26,817)	-	-
Total restricted current assets	<u>12,363</u>	<u>198,328</u>	<u>25,617</u>	<u>223,945</u>	<u>236,308</u>	<u>(26,817)</u>	<u>209,491</u>	<u>146,734</u>
Total current assets	<u>22,105</u>	<u>198,328</u>	<u>25,617</u>	<u>223,945</u>	<u>246,050</u>	<u>(29,215)</u>	<u>216,835</u>	<u>152,995</u>
NONCURRENT ASSETS - UNRESTRICTED								
Service release premium, net	4,260	-	-	-	4,260	-	4,260	3,713
Equipment, net	11	-	-	-	11	-	11	15
Total unrestricted noncurrent assets	<u>4,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,271</u>	<u>-</u>	<u>4,271</u>	<u>3,728</u>
NONCURRENT ASSETS - RESTRICTED								
Loans receivable, net of current portion	4,816	797,994	140,230	938,224	943,040	-	943,040	825,748
Investments	-	19,975	-	19,975	19,975	-	19,975	4,590
Total restricted noncurrent assets	<u>4,816</u>	<u>817,969</u>	<u>140,230</u>	<u>958,199</u>	<u>963,015</u>	<u>-</u>	<u>963,015</u>	<u>830,338</u>
Total noncurrent assets	<u>9,087</u>	<u>817,969</u>	<u>140,230</u>	<u>958,199</u>	<u>967,286</u>	<u>-</u>	<u>967,286</u>	<u>834,066</u>
Total assets	<u>31,192</u>	<u>1,016,297</u>	<u>165,847</u>	<u>1,182,144</u>	<u>1,213,336</u>	<u>(29,215)</u>	<u>1,184,121</u>	<u>987,061</u>
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflow - pension	1,919	-	-	-	1,919	-	1,919	736
Deferred outflow - OPEB	49	-	-	-	49	-	49	-
Financial derivative instrument	-	1,239	-	1,239	1,239	-	1,239	3,777
Total deferred outflows of resources	<u>1,968</u>	<u>1,239</u>	<u>-</u>	<u>1,239</u>	<u>3,207</u>	<u>-</u>	<u>3,207</u>	<u>4,513</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2018 AND 2017
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
LIABILITIES								
CURRENT LIABILITIES								
Due to HUD	\$ 13	\$ -	\$ -	\$ -	\$ 13	\$ -	\$ 13	\$ 14
Due to State Agencies	14	-	-	-	14	-	14	9
Other	2,689	10,951	16,408	27,359	30,048	(29,215)	833	642
Current portion of compensated absences	229	-	-	-	229	-	229	202
Current portion of bonds payable	-	18,781	1,243	20,024	20,024	-	20,024	27,691
Accrued interest	-	10,663	1,987	12,650	12,650	-	12,650	10,165
Funds held in trust	12,136	-	-	-	12,136	-	12,136	12,852
Grant funds received in advance	41	-	-	-	41	-	41	95
Total current liabilities	15,122	40,395	19,638	60,033	75,155	(29,215)	45,940	51,670
NONCURRENT LIABILITIES								
Compensated absences, net of current portion	121	-	-	-	121	-	121	138
Rebate due to IRS	-	38	-	38	38	-	38	102
Grant funds received in advance	4,369	-	-	-	4,369	-	4,369	4,317
Net pension liability	3,906	-	-	-	3,906	-	3,906	2,269
Net OPEB liability	191	-	-	-	191	-	191	-
Financial derivative instrument	-	1,239	-	1,239	1,239	-	1,239	3,777
Bonds payable, net of current portion	-	822,217	130,067	952,284	952,284	-	952,284	758,517
Total noncurrent liabilities	8,587	823,494	130,067	953,561	962,148	-	962,148	769,120
Total liabilities	23,709	863,889	149,705	1,013,594	1,037,303	(29,215)	1,008,088	820,790
DEFERRED INFLOWS OF RESOURCES								
Deferred inflow - pension	198	-	-	-	198	-	198	250
Deferred inflow - OPEB	14	-	-	-	14	-	14	-
Total deferred inflows of resources	212	-	-	-	212	-	212	250
NET POSITION								
Invested in capital assets	11	-	-	-	11	-	11	15
Restricted for debt service	-	153,647	16,142	169,789	169,789	-	169,789	163,049
Unrestricted	9,228	-	-	-	9,228	-	9,228	7,470
Total net position	\$ 9,239	\$ 153,647	\$ 16,142	\$ 169,789	\$ 179,028	\$ -	\$ 179,028	\$ 170,534

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
OPERATING REVENUES								
Mortgage interest income	\$ 159	\$ 28,274	\$ 5,499	\$ 33,773	\$ 33,932	\$ -	\$ 33,932	\$ 30,512
Investment income	-	2,549	223	2,772	2,772	-	2,772	2,883
Gain on sale of investments	-	167	15	182	182	-	182	1,098
Fee income	8,799	-	-	-	8,799	(5,845)	2,954	3,510
Total revenues	<u>8,958</u>	<u>30,990</u>	<u>5,737</u>	<u>36,727</u>	<u>45,685</u>	<u>(5,845)</u>	<u>39,840</u>	<u>38,003</u>
OPERATING EXPENSES								
Interest expense	53	17,754	3,578	21,332	21,385	-	21,385	18,213
Agency grants	242	-	-	-	242	-	242	1,284
Administrative and operating expenses	3,364	7,136	777	7,913	11,277	(5,845)	5,432	4,931
Salaries and benefits	3,589	-	-	-	3,589	-	3,589	3,480
Pension expense	580	-	-	-	580	-	580	275
OPEB expense	23	-	-	-	23	-	23	-
Depreciation	4	-	-	-	4	-	4	2
Total expenses	<u>7,855</u>	<u>24,890</u>	<u>4,355</u>	<u>29,245</u>	<u>37,100</u>	<u>(5,845)</u>	<u>31,255</u>	<u>28,185</u>
OPERATING INCOME	<u>1,103</u>	<u>6,100</u>	<u>1,382</u>	<u>7,482</u>	<u>8,585</u>	<u>-</u>	<u>8,585</u>	<u>9,818</u>
NONOPERATING REVENUE (EXPENSES)								
Federal grants	14,823	-	-	-	14,823	-	14,823	12,801
Investment income	108	-	-	-	108	-	108	66
Federal grants	(14,823)	-	-	-	(14,823)	-	(14,823)	(12,801)
Total nonoperating revenues (expenses)	<u>108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108</u>	<u>-</u>	<u>108</u>	<u>66</u>
CHANGE IN ASSETS BEFORE TRANSFERS	<u>1,211</u>	<u>6,100</u>	<u>1,382</u>	<u>7,482</u>	<u>8,693</u>	<u>-</u>	<u>8,693</u>	<u>9,884</u>
TRANSFERS								
Transfer to Adjutant General	-	-	-	-	-	-	-	(43)
Transfer to Industrial Commission	(38)	-	-	-	(38)	-	(38)	(39)
CHANGE IN NET POSITION	<u>1,173</u>	<u>6,100</u>	<u>1,382</u>	<u>7,482</u>	<u>8,655</u>	<u>-</u>	<u>8,655</u>	<u>9,802</u>
TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED								
	7,485	148,095	14,954	163,049	170,534	-	170,534	160,732
GASB 75 ADJUSTMENT	<u>(161)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(161)</u>	<u>-</u>	<u>(161)</u>	<u>-</u>
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>7,324</u>	<u>148,095</u>	<u>14,954</u>	<u>163,049</u>	<u>170,373</u>	<u>-</u>	<u>170,373</u>	<u>160,732</u>
TRANSFER IN (OUT)	<u>742</u>	<u>(548)</u>	<u>(194)</u>	<u>(742)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 9,239</u>	<u>\$ 153,647</u>	<u>\$ 16,142</u>	<u>\$ 169,789</u>	<u>\$ 179,028</u>	<u>\$ -</u>	<u>\$ 179,028</u>	<u>\$ 170,534</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
OPERATING ACTIVITIES								
Receipts from customers	\$ 12,307	\$ 161,026	\$ 17,626	\$ 178,652	\$ 190,959	\$ 5,098	\$ 196,057	\$ 203,099
Proceeds from sale of loans receivable	6,070	21,482	-	21,482	27,552	-	27,552	47,376
Interfund mortgages loan purchases and sales	99,876	(99,876)	-	(99,876)	-	-	-	-
Grant funds received in advance	(2)	-	-	-	(2)	-	(2)	(61)
Payment of grants	(263)	-	-	-	(263)	-	(263)	(1,275)
Payments to service providers								
State agencies	(216)	-	-	-	(216)	-	(216)	(535)
Mortgage loan purchases	(99,072)	(197,275)	-	(197,275)	(296,347)	-	(296,347)	(301,315)
Other	(15,152)	(417)	2,641	2,224	(12,928)	(5,098)	(18,026)	(9,370)
Payments to employees	(3,587)	-	-	-	(3,587)	-	(3,587)	(3,479)
Net cash provided by (used for) operating activities	(39)	(115,060)	20,267	(94,793)	(94,832)	-	(94,832)	(65,560)
NONCAPITAL FINANCING ACTIVITIES								
Principal payments on loan from Bank of ND	(32,038)	-	-	-	(32,038)	-	(32,038)	(127,351)
Principal payments on bonds payable	-	(103,640)	(22,980)	(126,620)	(126,620)	-	(126,620)	(249,400)
Proceeds from loan borrowings from Bank of ND	32,038	-	-	-	32,038	-	32,038	113,910
Proceeds from bond issuance	-	316,064	-	316,064	316,064	-	316,064	241,161
Interest paid on loans and bonds	(53)	(14,870)	(3,977)	(18,847)	(18,900)	-	(18,900)	(17,985)
Proceeds from federal grants	14,823	-	-	-	14,823	-	14,823	12,801
Payment of federal grants	(14,823)	-	-	-	(14,823)	-	(14,823)	(12,801)
Transfer to Adjutant General	-	-	-	-	-	-	-	(43)
Transfers to Industrial Commission	(38)	-	-	-	(38)	-	(38)	(39)
Interfund transfer in (out)	3,932	(3,932)	-	(3,932)	-	-	-	-
Net cash provided by (used for) noncapital financing activities	3,841	193,622	(26,957)	166,665	170,506	-	170,506	(39,747)

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
CAPITAL AND RELATED FINANCING ACTIVITIES								
Purchase of equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (17)
INVESTING ACTIVITIES								
Purchase of investments	(7,294)	(12,289)	-	(12,289)	(19,583)	-	(19,583)	(488)
Proceeds from sale of investments	3,361	450	-	450	3,811	-	3,811	14,044
Interest received from investments	344	129	-	129	473	-	473	554
Net cash provided by (used for) investing activities	(3,589)	(11,710)	-	(11,710)	(15,299)	-	(15,299)	14,110
NET CHANGE IN CASH AND CASH EQUIVALENTS	213	66,852	(6,690)	60,162	60,375	-	60,375	(91,214)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,851	89,965	20,404	110,369	128,220	-	128,220	219,434
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 18,064	\$ 156,817	\$ 13,714	\$ 170,531	\$ 188,595	\$ -	\$ 188,595	\$ 128,220
Cash and Cash Equivalents - Unrestricted	\$ 5,928	\$ -	\$ -	\$ -	\$ 5,928	\$ -	\$ 5,928	\$ 4,998
Cash and Cash Equivalents - Restricted	12,136	156,817	13,714	170,531	182,667	-	182,667	123,222
	\$ 18,064	\$ 156,817	\$ 13,714	\$ 170,531	\$ 188,595	\$ -	\$ 188,595	\$ 128,220

NORTH DAKOTA HOUSING FINANCE AGENCY
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(in Thousands)

	Agency Operating Funds	Homeownership Bond Funds		Homeownership Bond Funds	Total	Elimination	Total	
		1994 General Resolution	2009 General Resolution				2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES								
Operating income (loss)	\$ 1,103	\$ 6,100	\$ 1,382	\$ 7,482	\$ 8,585	\$ -	\$ 8,585	\$ 9,818
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation	4	-	-	-	4	-	4	2
Amortization								
Original issue discounts and premiums	-	(2,734)	(610)	(3,344)	(3,344)	-	(3,344)	(3,285)
Service release premiums	919	-	-	-	919	-	919	871
Reclassification of interest expense to other activities	52	17,813	3,577	21,390	21,442	-	21,442	18,068
Changes in deferred inflows and outflows:								
Deferred outflow - pension	(1,183)	-	-	-	(1,183)	-	(1,183)	(523)
Deferred outflow - OPEB	(19)	-	-	-	(19)	-	(19)	-
Deferred inflows - pension	(52)	-	-	-	(52)	-	(52)	8
Deferred inflows - OPEB	14	-	-	-	14	-	14	-
Changes in assets and liabilities:								
(Increase) decrease in due from HUD	(21)	-	-	-	(21)	-	(21)	14
(Increase) decrease in due from State Agencies	(7)	-	-	-	(7)	-	(7)	1
(Increase) decrease in service release premium	(1,538)	-	-	-	(1,538)	-	(1,538)	(1,482)
(Increase) decrease in other receivables	1,259	2,934	(7,922)	(4,988)	(3,729)	(55,448)	(59,177)	87
(Increase) decrease in prepaid expenses	17	14	-	14	31	-	31	(4)
(Increase) decrease in loan interest receivable	21	(663)	50	(613)	(592)	-	(592)	(95)
(Increase) decrease in loans receivable	8,044	(147,854)	19,762	(128,092)	(120,048)	-	(120,048)	(90,433)
Increase (decrease) in due to HUD	(1)	-	-	-	(1)	-	(1)	(4)
Increase (decrease) in due to State Agencies	5	-	-	5	5	-	5	(22)
Increase (decrease) in rebate due to IRS	-	(64)	-	(64)	(64)	-	(64)	89
Increase (decrease) in other liabilities	(9,585)	9,394	4,028	13,422	3,837	55,448	59,285	(136)
Increase (decrease) in compensated absences	10	-	-	-	10	-	10	22
Increase (decrease) funds held in trust	(716)	-	-	-	(716)	-	(716)	914
Increase (decrease) net pension liability	1,637	-	-	-	1,637	-	1,637	614
Increase (decrease) in deferred credits	-	-	-	-	-	-	-	(23)
Increase (decrease) grant funds received in advance	(2)	-	-	-	(2)	-	(2)	(61)
Net cash provided by (used for) operating activities	<u>\$ (39)</u>	<u>\$ (115,060)</u>	<u>\$ 20,267</u>	<u>\$ (94,793)</u>	<u>\$ (94,832)</u>	<u>\$ -</u>	<u>\$ (94,832)</u>	<u>\$ (65,560)</u>
Non-cash disclosures:								
Increase (decrease) in fair value of investments	\$ (259)	\$ (129)	\$ -	\$ (129)	\$ (388)	\$ -	\$ (388)	\$ (461)
Fair value transfers	\$ (259)	\$ 259	\$ -	\$ 259	\$ -	\$ -	\$ -	\$ -
Investment transfers	\$ 3,932	\$ (3,932)	\$ -	\$ (3,932)	\$ -	\$ -	\$ -	\$ -
Transfers associated with pledged loans	\$ (483)	\$ 289	\$ 194	\$ 483	\$ -	\$ -	\$ -	\$ -

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

Line Item #	Description	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	Lower Income	
		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	747,895	49,894	25,283	14,683	15,513	102,864	14,507	46,798
113	Cash - Other Restricted	-	-	-	-	-	-	-	-
115	Cash - Restricted for payment of current liability	-	-	2,797	5,764	-	2,051	2,152	-
100	Total Cash	747,895	49,894	28,080	20,447	15,513	104,915	16,659	46,798
122	Accounts Receivable - HUD Other Projects	110,279	9,970	-	-	4,969	-	-	65
125	Accounts Receivable - Miscellaneous	150	118	70	51	66	117	47	94
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-	-
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-
120	Total Receivables, net of allowances for doubtful accounts	110,429	10,088	70	51	5,035	117	47	159
142	Prepaid Expenses and Other Assets	2,938	82	49	35	46	81	33	65
150	Total Current Assets	861,262	60,064	28,199	20,533	20,594	105,113	16,739	47,022
160	Total Fixed Assets, Net of Accumulated Depreciation	-	-	-	-	-	-	-	-
180	Total Non-Current Assets	-	-	-	-	-	-	-	-
190	Total Assets	861,262	60,064	28,199	20,533	20,594	105,113	16,739	47,022
Liabilities and Equity									
311	Bank Overdraft	-	-	-	-	-	-	-	-
312	Accounts Payable <= 90 Days	14,388	109	65	47	61	108	43	87
331	Accounts Payable - HUD PHA Programs	-	-	2,797	5,764	-	2,051	2,152	-
310	Total Current Liabilities	14,388	109	2,862	5,811	61	2,159	2,195	87
350	Total Noncurrent Liabilities	-	-	-	-	-	-	-	-
300	Total Liabilities	14,388	109	2,862	5,811	61	2,159	2,195	87
508	Total Contributed Capital	-	-	-	-	-	-	-	-
508.4	Net Investment in Capital Assets	-	-	-	-	-	-	-	-
509.2	Fund Balance Reserved	-	-	-	-	-	-	-	-
511.4	Restricted Net Position	-	-	2,797	5,764	-	2,051	2,152	-
512.4	Unrestricted Net Position	846,874	59,955	22,540	8,958	20,533	100,903	12,392	46,935
513	Total Equity/Net Assets	846,874	59,955	25,337	14,722	20,533	102,954	14,544	46,935
600	Total Liabilities and Equity/Net Assets	861,262	60,064	28,199	20,533	20,594	105,113	16,739	47,022

NORTH DAKOTA HOUSING FINANCE AGENCY
HOUSING AND URBAN DEVELOPMENT -
SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

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	12,391,252	138,710	57,450	68,976	107,708	118,695	59,646
71100	Investment Income - Unrestricted	-	24	14	10	13	23	9
72000	Investment Income - Restricted	277	1	1	1	1	1	-
700	Total Revenue	12,391,529	138,735	57,465	68,987	107,722	118,719	59,655
Expenses								
91100	Administrative Salaries	340,886	11,380	6,753	4,877	6,378	11,255	4,502
91200	Auditing Fees	19,776	228	135	98	128	225	89
91500	Employee Benefit Contribution - Administrative	156,827	5,623	3,337	2,410	3,151	5,562	2,225
91600	Office Expense	62,228	2,121	1,259	909	1,188	2,098	839
91800	Travel	16,515	68	40	29	38	68	27
91900	Other	111,643	10,353	6,144	4,438	5,803	10,238	4,095
96900	Total Operating Expenses	707,875	29,773	17,668	12,761	16,686	29,446	11,777
97000	Excess Operating Revenue over Operating Expenses	11,683,654	108,962	39,797	56,226	91,036	89,273	47,878
97300	Housing Assistance Payments	11,596,796	111,823	41,497	57,454	92,641	92,106	49,010
90000	Total Expenses	12,304,671	141,596	59,165	70,215	109,327	121,552	60,787
10100	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	86,858	(2,861)	(1,700)	(1,228)	(1,605)	(2,833)	(1,132)
Memo Account Information								
11020	Debt Principal Payments - Enterprise Funds	-	-	-	-	-	-	-
11030	Beginning Equity	760,016	62,816	27,037	15,950	22,138	104,707	15,677
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-	1,080	(1)
11130	Maximum Annual Contributions Commitment (per ACC)	11,333,346	152,612	62,757	71,141	106,535	127,504	54,126
11140	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-	-	-
11150	Contingency Reserve, ACC Program Reserve	3,658,162	45,616	11,948	13,275	6,255	85,923	14,863
11160	Total Annual Contributions Available	14,991,508	198,228	74,705	84,416	112,790	213,427	68,989
11200	Unit Months Available	34,012	364	216	156	204	360	144
11210	Number of Unit Months Leased	34,012	267	126	129	192	285	139

NORTH DAKOTA HOUSING FINANCE AGENCY
ADJUSTED NET WORTH CALCULATION
FOR THE YEAR ENDED JUNE 30, 2018
(In Thousands)

A. Adjusted net worth calculation

Stockholder's equity per statement of financial condition at end of reporting period		<u>\$ 179,028</u>
Less:		
Itemized unacceptable assets		
1. Due from state agencies	\$ (9)	
2.	\$ -	
3.	\$ -	
Total unacceptable assets		<u>\$ (9)</u>
Adjusted net worth		<u>\$ 179,019</u>

B. Required net worth calculation

Unpaid principal balance of securities outstanding (Note: number of pools = 26)		<u>\$ 152,053</u>
Plus:		
Outstanding balance of commitment authority issued and requested		<u>\$ 52,448</u>
Total outstanding portfolio and authority		<u>\$ 204,501</u>
Required net worth		<u>\$ 1,519</u>

C. Excess (deficit) net worth

(Adjusted net worth - required net worth)		<u>\$ 177,500</u>
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NORTH DAKOTA HOUSING FINANCE AGENCY
INSURANCE COVERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018
(In Thousands)

A. Identification of affiliated Ginnie Mae issuers

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

B. Required insurance calculation

Servicing portfolio	
Ginnie Mae	\$ 152,053
Fannie Mae	-
Freddie Mac	-
Conventional (other)	<u>802,351</u>
Total servicing portfolio	<u>954,404</u>
Required fidelity bond coverage	<u>1,468</u>
Required mortgage servicing errors and omissions coverage	<u>1,468</u>

C. Verification of insurance coverage

Fidelity bond coverage at end of reporting period	<u>2,000</u>
Mortgage servicing errors and omissions coverage at end of reporting period	<u>2,000</u>

D. Excess (deficit) insurance coverage

Fidelity bond coverage	<u>532</u>
Required servicing errors and omissions coverage	<u>532</u>

E. Ginnie Mae loss payable endorsement

Fidelity bond coverage	<u>Yes</u>
Mortgage servicing errors and omissions coverage	<u>Yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
CAPITAL REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2018
(In Thousands)

A. Capital requirement for depository institutions

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

B. Capital requirement for nondepository institutions

Total adjusted net worth	\$ 179,019	
Total assets	<u>\$ 1,184,121</u>	
		<u>Meets</u>
Total adjusted net worth / total assets	<u>15.12%</u>	<u>yes</u>

NORTH DAKOTA HOUSING FINANCE AGENCY
LIQUID ASSET REQUIREMENT CALCULATION
FOR THE YEAR ENDED JUNE 30, 2018
(In Thousands)

A. Liquid asset calculation

Required net worth (from adjusted net worth calculation, page 67)		\$ 1,519
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Acceptable liquid assets

1. Cash and cash equivalents		\$ 188,595
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Total liquid assets		\$ 188,595
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B. Required liquid asset

		Meets Requirement?
Excess (deficit) liquid (Total liquid assets / required net worth)	12416%	yes

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Federal Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifier</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>				
Federal Housing Commission Division				
Mortgage Insurance - Homes	14.117		\$ -	\$ 131,722,934
Rent Supplements - Rental Housing for Lower Income Families	14.149		-	12,304,671
Housing Counseling Assistance Program	14.169		47,098	47,098
Housing Trust Fund	14.275		-	2,743,253
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	A	-	616,876
Passed through City of Minot:				
Community Development Block Grant - National Disaster Resilience Competition	14.269	B B-13-MS-38-002	-	13,476
Total Department of Housing and Urban Development			47,098	147,448,308
<u>Department of Veterans Affairs</u>				
Veterans Benefits Administration Division				
Veterans Housing - Guaranteed and Insured Loans	64.114		-	9,511,050
TOTAL			\$ 47,098	\$ 156,959,358

A = Section 8 Project-Based Cluster

B = CDBG - Disaster Recovery Grants Cluster

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, 2018

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, 2018. 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 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, 2018.

Federal Program	Federal CFDA Number	6/30/18 Balance
Mortgage Insurance - Homes	14.117	\$ 579,839,920
Veterans Housing - Guaranteed and Insured Loans	64.114	37,687,107



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
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, 2018, 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 17, 2018.

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 17, 2018



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
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, 2018. 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, 2018.

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 17, 2018

NORTH DAKOTA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported	
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>		
Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> yes	<u> x </u> no	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.117	Mortgage Insurance - Homes
14.275	Housing Trust Fund

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$757,093 </u>
Auditee qualified as a low-risk auditee?	<u> x </u> yes <u> </u> no

Section II - Financial Statement Findings

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

Section III - Federal Award Findings and Questioned Costs

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

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

Audit Report Communications:

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

Unmodified opinion.

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

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

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no prior year findings.

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

No.

Audit Committee Communications:

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

As described in Note 1 to the financial statements, North Dakota Housing Finance Agency changed accounting principles related to OPEB plans by adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

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

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. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Net OPEB liability – Management's estimate of its actuarially calculated OPEB liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, and life expectancy. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

9. Identify any significant audit adjustments.

None.

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

None.

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

None.

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

None.

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

None.

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

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

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative 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 17, 2018



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 17, 2018

Governor Doug Burgum
The Legislative Assembly
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, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, 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. As described in Note 1, the Agency changed accounting policies related to postemployment benefits by adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the current year. 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. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Net OPEB liability – Management’s estimate of its actuarially calculated OPEB liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, and life expectancy. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements noted.

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 17, 2018.

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, schedule of employer contributions – pension, employer's share of net OPEB liability, and schedule of employer contributions - OPEB, 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.

Restriction 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**