

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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## 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, 2019 and 2018, 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 financial position of the business-type activities of the North Dakota Housing Finance Agency, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof, and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements of the North Dakota Housing Finance Agency are intended to present the net position, revenues, expenses and cash flows of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the North Dakota Housing Finance Agency. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2019 and 2018, 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.

## **Change in Accounting Principle**

Also discussed in Note 23 to the financial statements, the North Dakota Housing Finance Agency changed its method of accounting for bonds sold at a premium or discount to the effective interest method. Our opinion is not modified with respect to this matter.

## **Correction of Error**

As discussed in Note 23 to the financial statements, certain errors resulting in overstatements of amount previously reported for the financial derivative instrument and deferred outflows of resources as of June 30, 2018, were discovered by management of the Agency during the current year. Accordingly, amounts reported for the financial derivative instrument and deferred outflows of resources have been restated in the 2018 financial statements now presented, to correct the error. 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 *Uniform Financial Report Standards* 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 72 is the responsibility of management and was 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 14, 2019 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 14, 2019

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019 AND 2018**  
(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, 2019 and 2018. 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 FY2019, mortgage loans receivable increased \$232,123 to \$1,198,372. This included \$369,723 of new loans purchased, \$25,109 of Loans securitized into an MBS, \$119,544 of repaid principal on mortgage loans and an increase in loan premiums of \$7,039 and an increase in mortgage loan loss reserve of \$14.

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 FY2019, Bonds Payable increased \$294,191 from the re-stated FY2018 Bonds Payable to \$1,262,396. This included the issuance of \$379,250 new Bonds, \$85,556 Bonds being called or maturing and a net increase in Bond premiums of 497. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt. Also see Note 23 for an explanation of the Prior Period Adjustment with regards to Bond Premium amortization.

In FY2018, Bonds Payable increased \$184,750 to \$968,205. This included the issuance of \$308,640 new Bonds, \$126,620 Bonds being called or maturing and a net increase in Bond premiums of \$2,730. See Note 11 in the accompanying Notes to the Financial Statements for more information regarding long term debt. Note that Prior Period Adjustments were implemented to the FY2017 and FY2018 Bond Premium Amortization due to the Agency implementing the Effective Interest Method.

The Agency borrowed \$37,353 from the Federal Home Loan Bank (FHLB) and repaid the entire principal plus interest during FY 2019. The Agency did not draw on the Bank of North Dakota (BND) line of credit during FY2019, however it remained available to the Agency. The beginning and ending balances were \$0 for both FHLB and BND.

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 Agency's FY2019 net position increased \$12,113, to \$195,244 as a result of the year's program operations and financing activities. Included in this number is an increase in the prior year's net position of \$4,102 due to a prior period adjustment with regards to implementing the Effective Interest Method in amortizing Bond Premium.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2019 AND 2018  
(In Thousands)

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. Note that the FY2018 net position increased \$4,102 to \$183,131 as a result of a Prior Period Adjustment due to implementing the Effective Interest Method in amortizing Bond Premium.

FY2019 Income Before Transfers of \$12,001 was higher than the re-stated FY2018 by \$1,958 as a result of a large increase in Mortgage loans and higher investment interest rates than the prior year. This was partially offset by higher Bond Interest Expense. FY2018 Income Before Transfers of \$8,693 (prior to re-statement due to Prior Period Adjustments) 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. Note that FY18 Income Before Transfers was restated to \$10,043 due to the Prior Period Adjustments.

Operating revenues in FY2019 of \$49,381 were up \$9,541 as a result of higher mortgage interest income due to a larger mortgage loan receivable balance and slightly higher average mortgage loan interest rates. Also, Investment interest rates were slightly higher along with higher Investment balances.

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 expenses for FY2019 of \$37,843 were up \$7,938 from the re-stated FY2018 Operating expenses due to higher interest expenses with regards to a larger Bonds Payable balance. Also, Administrative and operating expenses were slightly higher than the prior year. A prior period adjustment with regards to Bond Premium Amortization (changing to the Effective Interest Method) amounted to lower FY2018 Operating Expenses of \$1,350 from \$31,255 to 29,905.

Operating expenses for FY2018 of \$31,255 (prior to the adjustment for prior period adjustment) 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.

### **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, 2019 AND 2018**  
(In Thousands)

**Condensed Statements of Net Position**  
**June 30, 2019, 2018 and 2017**  
(In Thousands)

|                                       | 2019                | 2018<br>(Restated)  | 2017<br>(Restated) | Change            | Percentage    |
|---------------------------------------|---------------------|---------------------|--------------------|-------------------|---------------|
| <b>ASSETS</b>                         |                     |                     |                    |                   |               |
| Unrestricted current assets           | \$ 9,707            | \$ 7,344            | \$ 6,261           | \$ 2,363          | 32 %          |
| Restricted current assets             | 270,883             | 209,491             | 146,734            | 61,392            | 29            |
| Total current assets                  | <u>280,590</u>      | <u>216,835</u>      | <u>152,995</u>     | <u>63,755</u>     | <u>29</u>     |
| Unrestricted noncurrent assets        | 5,334               | 4,271               | 3,728              | 1,063             | 25            |
| Restricted noncurrent assets          | 1,212,551           | 963,015             | 830,338            | 249,536           | 26            |
| Total noncurrent assets               | <u>1,217,885</u>    | <u>967,286</u>      | <u>834,066</u>     | <u>250,599</u>    | <u>26</u>     |
| Total assets                          | <u>\$ 1,498,475</u> | <u>\$ 1,184,121</u> | <u>\$ 987,061</u>  | <u>\$ 314,354</u> | <u>27 %</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> |                     |                     |                    |                   |               |
| Total deferred outflows of resources  | <u>\$ 9,614</u>     | <u>\$ 1,968</u>     | <u>\$ 4,513</u>    | <u>\$ 7,646</u>   | <u>389 %</u>  |
| <b>LIABILITIES</b>                    |                     |                     |                    |                   |               |
| Current liabilities                   | \$ 73,289           | \$ 45,940           | \$ 51,670          | \$ 27,349         | 60 %          |
| Noncurrent liabilities                | 1,239,221           | 955,567             | 766,367            | 283,654           | 30            |
| Total liabilities                     | <u>\$ 1,312,510</u> | <u>\$ 1,001,507</u> | <u>\$ 818,037</u>  | <u>\$ 311,003</u> | <u>31 %</u>   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |                     |                    |                   |               |
| Total deferred inflows of resources   | <u>\$ 335</u>       | <u>\$ 1,451</u>     | <u>\$ 250</u>      | <u>\$ (1,116)</u> | <u>(77) %</u> |
| <b>NET POSITION</b>                   |                     |                     |                    |                   |               |
| Invested in capital assets            | \$ 13               | \$ 11               | \$ 15              | \$ 2              | 18 %          |
| Restricted for debt service           | 183,913             | 173,892             | 165,802            | 10,021            | 6             |
| Unrestricted                          | 11,318              | 9,228               | 7,470              | 2,090             | 23            |
| Total net position                    | <u>\$ 195,244</u>   | <u>\$ 183,131</u>   | <u>\$ 173,287</u>  | <u>\$ 12,113</u>  | <u>7 %</u>    |



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2019, 2018 and 2017**  
(In Thousands)

|   | 2019              | 2018<br>(Restated) | 2017<br>(Restated) | Change           | Percentage   |
|---|-------------------|--------------------|--------------------|------------------|--------------|
| <b>OPERATING REVENUES</b>                               |                   |                    |                    |                  |              |
| Mortgage interest income                                | \$ 40,728         | \$ 33,932          | \$ 30,512          | \$ 6,796         | 20 %         |
| Investment income                                       | 5,460             | 2,772              | 2,883              | 2,688            | 97           |
| Gain on sale of investment                              | 79                | 182                | 1,098              | (103)            | (57)         |
| Fee income  | 3,114             | 2,954              | 3,510              | 160              | 5            |
| Total revenues  | <u>49,381</u>     | <u>39,840</u>      | <u>38,003</u>      | <u>9,541</u>     | <u>24 %</u>  |
| <b>OPERATING EXPENSES</b>                               |                   |                    |                    |                  |              |
| Interest expense  | 27,159            | 20,035             | 15,460             | 7,124            | 36 %         |
| Agency grants   | 231               | 242                | 1,284              | (11)             | (5)          |
| Administrative and operating expenses                   | 6,219             | 5,432              | 4,931              | 787              | 14           |
| Salaries and benefits                                   | 3,570             | 3,589              | 3,480              | (19)             | (1)          |
| Pension expense   | 636               | 580                | 275                | 56               | 10           |
| OPEB expense  | 23                | 23                 | -                  | -                | -            |
| Depreciation  | 5                 | 4                  | 2                  | 1                | 25           |
| Total expenses  | <u>37,843</u>     | <u>29,905</u>      | <u>25,432</u>      | <u>7,938</u>     | <u>27 %</u>  |
| <b>OPERATING INCOME</b>                                 | <u>11,538</u>     | <u>9,935</u>       | <u>12,571</u>      | <u>1,603</u>     | <u>16 %</u>  |
| <b>NONOPERATING REVENUES<br/>(EXPENSES)</b>             |                   |                    |                    |                  |              |
| Federal grants  | 14,868            | 14,823             | 12,801             | 45               | -            |
| Non-federal grants                                      | 2                 | -                  | -                  | 2                | -            |
| Investment income                                       | 461               | 108                | 66                 | 353              | 327          |
| Federal grants  | (14,868)          | (14,823)           | (12,801)           | (45)             | -            |
|   | <u>463</u>        | <u>108</u>         | <u>66</u>          | <u>355</u>       | <u>329 %</u> |
| <b>INCOME BEFORE TRANSFERS</b>                          | <u>12,001</u>     | <u>10,043</u>      | <u>12,637</u>      | <u>1,958</u>     | <u>19 %</u>  |
| <b>TRANSFERS</b>  |                   |                    |                    |                  |              |
| Transfer in from Adjutant General                       | -                 | -                  | (43)               | -                | -            |
| Transfer from Human Services - Landlord Risk Mitigation | 150               | -                  | -                  | 150              | -            |
| Transfers to Industrial Commission                      | (38)              | (38)               | (39)               | -                | -            |
| <b>CHANGE IN NET POSITION</b>                           | <u>12,113</u>     | <u>10,005</u>      | <u>12,555</u>      | <u>2,108</u>     | <u>21 %</u>  |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR,</b>           | <u>183,131</u>    | <u>170,373</u>     | <u>160,732</u>     | <u>12,758</u>    | <u>7 %</u>   |
| <b>GASB 75 ADJUSTMENT</b>                               | <u>-</u>          | <u>2,753</u>       | <u>-</u>           | <u>(2,753)</u>   | <u>-</u>     |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED</b>  | <u>183,131</u>    | <u>173,126</u>     | <u>160,732</u>     | <u>10,005</u>    | <u>6 %</u>   |
| <b>TOTAL NET POSITION, END OF YEAR</b>                  | <u>\$ 195,244</u> | <u>\$ 183,131</u>  | <u>\$ 173,287</u>  | <u>\$ 12,113</u> | <u>7 %</u>   |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2019 AND 2018  
(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.

FY2019 Operating interest income of \$5,460 was up \$2,688 from the prior year as a result of more dollars invested throughout the year with regards to bond funds along with slightly higher interest rates. In addition, due to low investment contract rates, the Agency uses the Bond Proceeds as Non-purpose investments on a temporary basis to fund mortgage loans until permanent financing is available. The interest rates are substantially higher than the Agency would receive if investing in investment contracts.

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.

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 FY2019 Non-Operating Interest Income of \$461 was up \$353 as a result of the Agency owning more GNMA investments than in the prior year. In addition, the newer GNMA investments are at a higher interest rate.

The FY2018 Non-Operating Interest Income of \$108 was up \$42 as a result of additional MBS (GNMA Investments). These investments carry a higher interest rate than traditional savings accounts.

### **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.

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.

The Agency's First Home program continues to purchase loans at a high level from our lender partners. Our program offers down payment and closing cost assistance to eligible borrowers which helps a majority of our borrowers qualify for purchasing a home. As the population stabilizes and in many areas of the State, increases, the need for affordable homes will continue making NDHFA programs relevant for years to come.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(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, 2019 AND 2018**  
(In Thousands)

|  | 2019      | 2018 (Restated) |
|--|-----------|-----------------|
| <b>ASSETS</b>                              |           |                 |
| <b>CURRENT ASSETS - UNRESTRICTED</b>       |           |                 |
| Cash and cash equivalents                  | \$ 7,430  | \$ 5,928        |
| Due from State Agencies                    | 6         | 9               |
| Receivables                                |           |                 |
| Interest                                   |           |                 |
| Loans                                      | 4         | 8               |
| Investments                                | 104       | 51              |
| Due from HUD                               | 530       | 152             |
| Other                                      | 807       | 546             |
| Current portion of service release premium | 763       | 621             |
| Prepaid expenses                           | 63        | 29              |
| Total unrestricted current assets          | 9,707     | 7,344           |
| <b>CURRENT ASSETS - RESTRICTED</b>         |           |                 |
| Cash and cash equivalents                  | 231,105   | 182,667         |
| Investments                                | 7,335     | -               |
| Receivables                                |           |                 |
| Current portion of loans receivable        | 27,954    | 23,209          |
| Interest                                   |           |                 |
| Loans                                      | 4,268     | 3,449           |
| Investments                                | 220       | 166             |
| Other                                      | 1         | -               |
| Total restricted current assets            | 270,883   | 209,491         |
| Total current assets                       | 280,590   | 216,835         |
| <b>NONCURRENT ASSETS - UNRESTRICTED</b>    |           |                 |
| Service release premium, net               | 5,321     | 4,260           |
| Equipment, net                             | 13        | 11              |
| Total unrestricted noncurrent assets       | 5,334     | 4,271           |
| <b>NONCURRENT ASSETS - RESTRICTED</b>      |           |                 |
| Loans receivable, net of current portion   | 1,170,418 | 943,040         |
| Investments                                | 42,133    | 19,975          |
| Total restricted noncurrent assets         | 1,212,551 | 963,015         |
| Total noncurrent assets                    | 1,217,885 | 967,286         |
| Total assets                               | 1,498,475 | 1,184,121       |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>      |           |                 |
| Deferred outflow - pension                 | 1,677     | 1,919           |
| Deferred outflow - OPEB                    | 51        | 49              |
| Financial derivative instrument            | 7,886     | -               |
| Total deferred outflows of resources       | 9,614     | 1,968           |

See Notes to Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF NET POSITION - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

|  | 2019       | 2018 (Restated) |
|--|------------|-----------------|
| <b>LIABILITIES</b>                           |            |                 |
| <b>CURRENT LIABILITIES</b>                   |            |                 |
| Due to HUD                                   | \$ 13      | \$ 13           |
| Due to state agencies                        | 17         | 14              |
| Current portion of rebate due to IRS         | 81         | -               |
| Other  | 1,490      | 833             |
| Current portion of compensated absences      | 237        | 229             |
| Current portion of bonds payable             | 39,830     | 20,024          |
| Accrued interest                             | 16,337     | 12,650          |
| Funds held in trust                          | 14,941     | 12,136          |
| Grant funds received in advance              | 343        | 41              |
| Total current liabilities                    | 73,289     | 45,940          |
| <b>NONCURRENT LIABILITIES</b>                |            |                 |
| Compensated absences, net of current portion | 107        | 121             |
| Rebate due to IRS                            | 9          | 38              |
| Grant funds received in advance              | 4,463      | 4,369           |
| Net pension liability                        | 4,000      | 3,906           |
| Net OPEB liability                           | 190        | 191             |
| Financial derivative instrument              | 7,886      | (1,239)         |
| Bonds payable, net of current portion        | 1,222,566  | 948,181         |
| Total noncurrent liabilities                 | 1,239,221  | 955,567         |
| Total liabilities                            | 1,312,510  | 1,001,507       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>         |            |                 |
| Deferred inflow - pension                    | 324        | 198             |
| Deferred inflow - OPEB                       | 11         | 14              |
| Financial derivative instrument              | -          | 1,239           |
| Total deferred inflows of resources          | 335        | 1,451           |
| <b>NET POSITION</b>                          |            |                 |
| Net investment in capital assets             | 13         | 11              |
| Restricted for debt service                  | 183,913    | 173,892         |
| Unrestricted                                 | 11,318     | 9,228           |
| Total net position                           | \$ 195,244 | \$ 183,131      |

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, 2019 AND 2018**  
(In Thousands)

|  | 2019       | 2018 (Restated) |
|--|------------|-----------------|
| <b>OPERATING REVENUES</b>  |            |                 |
| Mortgage interest income   | \$ 40,728  | \$ 33,932       |
| Investment income  | 5,460      | 2,772           |
| Gain on sale of investments  | 79         | 182             |
| Fee income   | 3,114      | 2,954           |
| Total revenues   | 49,381     | 39,840          |
| <b>OPERATING EXPENSES</b>  |            |                 |
| Interest expense   | 27,159     | 20,035          |
| Agency grants  | 231        | 242             |
| Administrative and operating expenses                                    | 6,219      | 5,432           |
| Salaries and benefits  | 3,570      | 3,589           |
| Pension expense  | 636        | 580             |
| OPEB expense   | 23         | 23              |
| Depreciation   | 5          | 4               |
| Total expenses   | 37,843     | 29,905          |
| <b>OPERATING INCOME</b>  | 11,538     | 9,935           |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                                  |            |                 |
| Federal grants   | 14,868     | 14,823          |
| Non-federal grants   | 2          | -               |
| Investment income  | 461        | 108             |
| Federal grants   | (14,868)   | (14,823)        |
| Total nonoperating revenues (expenses)                                   | 463        | 108             |
| <b>INCOME BEFORE TRANSFERS</b>   | 12,001     | 10,043          |
| <b>TRANSFERS</b>   |            |                 |
| Transfer from ND Department of Human Services                            | 150        | -               |
| Transfer to Industrial Commission  | (38)       | (38)            |
| <b>CHANGE IN NET POSITION</b>  | 12,113     | 10,005          |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR,<br/>AS PREVIOUSLY REPORTED</b> | 183,131    | 170,373         |
| <b>PRIOR PERIOD ADJUSTMENT (SEE NOTE 23)</b>                             | -          | 2,753           |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED</b>                   | 183,131    | 173,126         |
| <b>TOTAL NET POSITION, END OF YEAR</b>                                   | \$ 195,244 | \$ 183,131      |

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(In Thousands)

|   | 2019       | 2018 (Restated) |
|---|------------|-----------------|
| <b>OPERATING ACTIVITIES</b>                                 |            |                 |
| Receipts from customers                                     | \$ 163,412 | \$ 196,057      |
| Proceeds from sale of loans receivable                      | 25,110     | 27,552          |
| Grant funds received in advance                             | 396        | (2)             |
| Payment of grants   | (609)      | (263)           |
| Payments to service providers                               |            |                 |
| State agencies  | (155)      | (216)           |
| Mortgage loan purchases                                     | (369,723)  | (296,347)       |
| Other   | (12,221)   | (18,026)        |
| Payments to employees                                       | (3,565)    | (3,587)         |
| Net cash used by operating activities                       | (197,355)  | (94,832)        |
| <b>NONCAPITAL FINANCING ACTIVITIES</b>                      |            |                 |
| Principal payments on loan from BND / FHLB                  | (37,353)   | (32,038)        |
| Principal payments on bonds payable                         | (89,660)   | (126,620)       |
| Proceeds from loan borrowings from BND / FHLB               | 37,353     | 32,038          |
| Proceeds from bond issuance                                 | 389,022    | 316,064         |
| Interest paid on loans and bonds                            | (23,474)   | (18,900)        |
| Proceeds from federal grants                                | 14,868     | 14,823          |
| Proceeds from non-federal grants                            | 2          | -               |
| Payment of federal grants                                   | (14,868)   | (14,823)        |
| Transfer from ND Department of Human Services               | 150        | -               |
| Transfers to Industrial Commission                          | (38)       | (38)            |
| Net cash provided (used) by noncapital financing activities | 276,002    | 170,506         |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>             |            |                 |
| Purchase of equipment                                       | (7)        | -               |
| <b>INVESTING ACTIVITIES</b>                                 |            |                 |
| Purchase of investments                                     | (33,108)   | (19,583)        |
| Proceeds from sale of investments                           | 4,055      | 3,811           |
| Interest received from investments                          | 353        | 473             |
| Net cash provided (used) by for investing activities        | (28,700)   | (15,299)        |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                     | 49,940     | 60,375          |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR              | 188,595    | 128,220         |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                    | \$ 238,535 | \$ 188,595      |
| CASH AND CASH EQUIVALENTS - UNRESTRICTED                    | \$ 7,430   | \$ 5,928        |
| CASH AND CASH EQUIVALENTS - RESTRICTED                      | 231,105    | 182,667         |
|   | \$ 238,535 | \$ 188,595      |

See Notes to the Financial Statements



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(In Thousands)

|  | 2019         | 2018 (Restated) |
|--|--------------|-----------------|
| <b>RECONCILIATION OF OPERATING INCOME TO NET</b>                                 |              |                 |
| <b>CASH USED BY OPERATING ACTIVITIES</b>   |              |                 |
| Operating income   | \$ 11,538    | \$ 9,935        |
| Adjustments to reconcile operating income to net cash from operating activities: |              |                 |
| Depreciation   | 5            | 4               |
| Amortization   |              |                 |
| Original issue discounts and premiums  | (5,173)      | (4,694)         |
| Service release premium  | 1,048        | 919             |
| Fair value (increases) decreases of investments                                  | (384)        | -               |
| Reclassification of interest income/expense to other activities                  | 27,106       | 21,442          |
| Effect on cash flows due to changes in:  |              |                 |
| Deferred outflow - pension   | 242          | (1,183)         |
| Deferred outflow - OPEB  | (2)          | (19)            |
| Deferred inflows - pension   | 126          | (52)            |
| Deferred inflows - OPEB  | (3)          | 14              |
| Effect on cash flows due to changes in:  |              |                 |
| Due from HUD   | (378)        | (21)            |
| Due from State Agencies  | 3            | (7)             |
| Other receivables  | 11,133       | (59,177)        |
| Service release premium  | (2,251)      | (1,538)         |
| Prepaid expenses   | (34)         | 31              |
| Loan interest receivable   | (815)        | (592)           |
| Loans receivable   | (232,123)    | (120,048)       |
| Due to HUD   | (1)          | (1)             |
| Due to State Agencies  | 3            | 5               |
| Rebate due to IRS  | 51           | (64)            |
| Other liabilities  | (10,734)     | 59,285          |
| Compensated absences   | (6)          | 10              |
| Funds held in trust  | 2,804        | (716)           |
| Net pension liability  | 94           | 1,637           |
| Grant funds received in advance  | 396          | (2)             |
|  | \$ (197,355) | \$ (94,832)     |
| Net cash used by operating activities  |              |                 |
| Non-cash disclosures:  |              |                 |
| Increase (decrease) in fair value of investments                                 | \$ 439       | \$ (388)        |

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<br><u>Appropriations</u><br><u>Original</u> | 2017-2019<br><u>Appropriations</u><br><u>As Adjusted</u> | 2017-2019<br><u>Expenditures</u> | <u>Unexpended</u><br><u>Appropriations</u> |
|------------------------------|---|--|----------------------------------|--|
| Administrative Expenses:     |   |  |                                  |  |
| Salaries, wages and benefits | \$ 7,892  | \$ 7,892   | \$ 7,569                         | \$ 323                                     |
| Operating expenses           | 4,743   | 5,543  | 5,394                            | 149  |
| Grants, benefits and claims  | 31,795  | 31,795   | 30,601                           | 1,194                                      |
| Contingency                  | <u>100</u>  | <u>100</u>   | <u>7</u>                         | <u>93</u>                                  |
| Total                        | <u>\$ 44,530</u>                                      | <u>\$ 45,330</u>   | <u>\$ 43,571</u>                 | <u>\$ 1,759</u>                            |

- (1) The Agency's total appropriations of \$45,330 consist of funding of \$31,245 from federal funds and \$14,085 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  | \$ 22,384       |
| Less: Grants, benefits and claims   | (15,536)        |
| Administrative and operating expenses relating to                                       |                 |
| Rental, Homeownership Bonds and Agency expenses   | 1,916           |
| Amortization of service release premium   | 1,047           |
| Interest expense for the Agency   | (22)            |
| Depreciation  | <u>5</u>        |
| Total administrative and operation expenses,<br>salaries and benefits, and depreciation | <u>\$ 9,794</u> |

See Notes to the Financial Statements

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018**  
**(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.

**Reclassifications**

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

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(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, 2019 and 2018 were \$22,842 and \$18,297, 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, 2019 and 2018 were \$22,506 and \$18,064, respectively.

The carrying amounts of the Agency's cash and cash equivalents as reported on the balance sheet at June 30, 2019 and 2018 is as follows:

|   | <u>2019</u>       | <u>2018</u>       |
|---|-------------------|-------------------|
| Unrestricted  |                   |                   |
| Cash and cash equivalents                                     |                   |                   |
| Deposits at Bank of North Dakota                              | \$ 7,430          | \$ 5,928          |
| Total cash and cash equivalents                               | <u>\$ 7,430</u>   | <u>\$ 5,928</u>   |
| Restricted  |                   |                   |
| Cash and cash equivalents                                     |                   |                   |
| Deposits at Bank of North Dakota                              | \$ 15,076         | \$ 12,136         |
| Deposits at Wilmington Trust                                  | 398               | 4,214             |
| Cash and cash equivalents held in trust                       | 22,234            | 21,693            |
| Fixed rate investment agreements reported as cash equivalents | <u>193,397</u>    | <u>144,624</u>    |
| Total cash and cash equivalents                               | <u>\$ 231,105</u> | <u>\$ 182,667</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, 2019 AND 2018**  
(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, 2019:

|                              | <u>Total Market<br/>Value</u> | <u>Less than<br/>1 Year</u> | <u>1 - 5<br/>Years</u> | <u>5 - 10<br/>Years</u> | <u>More Than<br/>10 Years</u> |
|------------------------------|-------------------------------|-----------------------------|------------------------|-------------------------|-------------------------------|
| US Treasury Bonds            | \$ 7,335                      | \$ 7,335                    | \$ -                   | \$ -                    | \$ -                          |
| Mortgage Backed Securities   | 42,133                        | -                           | -                      | -                       | 42,133                        |
| <b>Total Debt Securities</b> | <b><u>\$ 49,468</u></b>       | <b><u>\$ 7,335</u></b>      | <b><u>\$ -</u></b>     | <b><u>\$ -</u></b>      | <b><u>\$ 42,133</u></b>       |

The following shows the investments by investment type, amount and the duration at June 30, 2018:

|                              | <u>Total Market<br/>Value</u> | <u>Less than<br/>1 Year</u> | <u>1 - 5<br/>Years</u> | <u>5 - 10<br/>Years</u> | <u>More Than<br/>10 Years</u> |
|------------------------------|-------------------------------|-----------------------------|------------------------|-------------------------|-------------------------------|
| US Treasury Bonds            | \$ 1,998                      | \$ 1,998                    | \$ -                   | \$ -                    | \$ -                          |
| Mortgage Backed Securities   | 17,977                        | -                           | -                      | -                       | 17,977                        |
| <b>Total Debt Securities</b> | <b><u>\$ 19,975</u></b>       | <b><u>\$ 1,998</u></b>      | <b><u>\$ -</u></b>     | <b><u>\$ -</u></b>      | <b><u>\$ 17,977</u></b>       |

**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, 2019, the Agency owned \$32,601 and the 1994 General Resolution Bond Issues owned \$9,532 of the \$42,133 Mortgage Backed Securities. The \$9,532 is restricted funds through the Bond Issue requirements. The Agency operating fund investment securities with a carrying amount of approximately \$9,532, (all of which are MBS owned by the Agency), at June 30, 2019 were pledged as requested by rating agencies in conjunction with the 1994 and 2009 General Resolutions and as collateral on bank loans. The U.S. Treasury bond of \$7,335 is associated with the multifamily bond at June 30, 2019 and is restricted to pay principal and interest for that bond, which matures on August 1, 2020.

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.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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**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, 2019.

|                            | Total            | Quoted<br>Prices in<br>Active<br>Markets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|----------------------------|------------------|---|---|--|
| <b>ASSETS</b>              |                  |   |   |  |
| Mortgage-backed securities |                  |   |   |  |
| Agency                     | \$ 42,133        | \$ -  | \$ 42,133   | \$ -   |
| US treasuries              | 7,335            | 7,335   | -   | -  |
| Total                      | <u>\$ 49,468</u> | <u>\$ 7,335</u>                                     | <u>\$ 42,133</u>  | <u>\$ -</u>                                      |
| Interest rate swap         | <u>\$ 7,886</u>  | <u>\$ -</u>   | <u>\$ 7,886</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, 2018.

|                            | Total             | Quoted<br>Prices in<br>Active<br>Markets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|----------------------------|-------------------|---|---|--|
| <b>ASSETS</b>              |                   |   |   |  |
| 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>                                      |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 5 LOANS RECEIVABLE**

Loans receivable at June 30, 2019 and 2018, consist of the following:

|                          | <u>2019</u>         | <u>2018</u>       |
|--------------------------|---------------------|-------------------|
| Restricted:              |                     |                   |
| Agency operating funds   | \$ 5,392            | \$ 5,043          |
| Less: current portion    | <u>424</u>          | <u>227</u>        |
|                          | <u>\$ 4,968</u>     | <u>\$ 4,816</u>   |
| Restricted:              |                     |                   |
| Homeownership bond funds | \$ 1,192,980        | \$ 961,206        |
| Less: current portion    | <u>27,530</u>       | <u>22,982</u>     |
|                          | <u>\$ 1,165,450</u> | <u>\$ 938,224</u> |

Mortgage loans are secured by first liens on real property.

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

Interest rates on Agency and Homeownership mortgage loans vary from 0.00% to 8.95% for the year ended June 30, 2019 and from 0.00% to 8.95% for the year ended June 30, 2018 with maturities of such loans ranging from less than one year to 40 years.

Included in Homeownership and Agency mortgage loans are loans totaling \$240 which have been foreclosed on and are owned by the Agency (REO), \$58 in real estate loans in judgment (REJ), and 80 loans totaling \$9,723 that were in the foreclosure process at June 30, 2019. At June 30, 2018, Homeownership and Agency mortgage loans included 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. 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**  
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**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:

|              | 2019   | 2018   |
|--------------|--------|--------|
| Due from HUD | \$ 530 | \$ 152 |
| Due to HUD   | \$ 13  | \$ 13  |

**NOTE 7 EQUIPMENT**

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

|                       | Equipment | Accumulated<br>Depreciation | Net<br>Equipment |
|-----------------------|-----------|-----------------------------|------------------|
| Balance July 1, 2017  | \$ 203    | \$ 188                      | \$ 15            |
| Additions             | -         | 4                           |                  |
| Deletions             | -         | -                           |                  |
| Balance June 30, 2018 | \$ 203    | \$ 192                      | \$ 11            |
| Additions             | 7         | 5                           |                  |
| Deletions             | (8)       | (8)                         |                  |
| Balance June 30, 2019 | \$ 202    | \$ 189                      | \$ 13            |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 8 OTHER RECEIVABLES**

A detail of other receivables as of June 30, 2019 and 2018 is as follows:

|                            | <u>2019</u>   | <u>2018</u>   |
|----------------------------|---------------|---------------|
| Unrestricted:              |               |               |
| Receivable from developers | \$ 424        | \$ 263        |
| Accounts receivable        | 383           | 283           |
|                            | <u>\$ 807</u> | <u>\$ 546</u> |

**NOTE 9 OTHER LIABILITIES**

A detail of other liabilities as of June 30, 2019 and 2018 is as follows:

|                  | <u>2019</u>     | <u>2018</u>   |
|------------------|-----------------|---------------|
| Remarketing fees | \$ 23           | \$ 22         |
| Commitment fees  | 94              | 87            |
| Accounts payable | 1,373           | 721           |
| NIPB fee         | -               | 3             |
|                  | <u>\$ 1,490</u> | <u>\$ 833</u> |



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**NOTE 10 RELATED PARTY TRANSACTIONS**

The Agency had the following transactions with related parties as of June 30, 2019 and 2018:

|  | 2019      | 2018      |
|--|-----------|-----------|
| Cash and cash equivalents - unrestricted |           |           |
| Bank of North Dakota                     | \$ 7,430  | \$ 5,928  |
|  | \$ 7,430  | \$ 5,928  |
| Cash and cash equivalents - restricted   |           |           |
| Bank of North Dakota                     | \$ 15,076 | \$ 12,136 |
|  | \$ 15,076 | \$ 12,136 |
| Due from state agencies                  |           |           |
| Housing Incentive Fund                   | \$ 6      | \$ 4      |
| Department of Commerce                   | -         | 5         |
|  | \$ 6      | \$ 9      |
| Due to state agencies                    |           |           |
| Information Technology Department        | \$ 9      | \$ 7      |
| Attorney General                         | 6         | 5         |
| Department of Transportation             | 1         | 1         |
| Office of Management and Budget          | 1         | 1         |
|  | \$ 17     | \$ 14     |
| Transfers out                            |           |           |
| Industrial Commission                    | \$ 38     | \$ 38     |
|  | \$ 38     | \$ 38     |
| Transfer In                              |           |           |
| ND Department of Human Services          | \$ 150    | \$ -      |
|  | \$ 150    | \$ -      |
| Administrative and operating expenses    |           |           |
| Bank of North Dakota                     |           |           |
| Line of credit interest expense          | \$ -      | \$ 53     |
| Safekeeping fees                         | 1         | -         |
| Information Technology Department        |           |           |
| Telephone and data processing            | 19        | 19        |
| Data processing                          | 71        | 67        |
| Attorney General                         |           |           |
| Legal fees                               | 46        | 56        |
| Office of Management and Budget          |           |           |
| Supplies and conferences                 | 12        | 11        |
| Risk management premium                  | 1         | 1         |
| Indirect cost allocation                 | 1         | 1         |
| Unemployment                             | 3         | -         |
| Housing Incentive Fund                   |           |           |
| Administration and support               | 18        | 19        |
| Department of Transportation             |           |           |
| Travel                                   | 6         | 6         |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
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**NOTE 11 LONG-TERM LIABILITIES**

**Change in Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2019 is as follows:

|                               | Balance<br>(as restated)<br>7/1/18 | Additions         | Reductions       | Balance<br>(as restated)<br>6/30/19 | Amounts<br>Due<br>Within<br>One Year |
|-------------------------------|------------------------------------|-------------------|------------------|-------------------------------------|--------------------------------------|
| Homeownership bond funds, par | \$ 950,660                         | \$ 370,000        | \$ 89,660        | \$ 1,231,000                        | \$ 34,265                            |
| Multi-family revenue bonds    | -                                  | 9,250             | -                | 9,250                               | -                                    |
| Premium on bond funds         | 17,546                             | 9,773             | 5,173            | 22,146                              | 5,565                                |
| Compensated absences          | 350                                | 222               | 228              | 344                                 | 237                                  |
| Net pension liability         | 3,906                              | 1,309             | 1,215            | 4,000                               | -                                    |
| Net OPEB liability            | 191                                | 52                | 53               | 190                                 | -                                    |
|                               | <u>\$ 972,653</u>                  | <u>\$ 390,606</u> | <u>\$ 96,329</u> | <u>\$ 1,266,930</u>                 | <u>\$ 40,067</u>                     |

See Note 15 and Note 16 for more information on the net pension liability and net OPEB liability, respectively. The premium on bond funds opening balance reflects the change in accounting, see Note 23 for more details.

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

|                               | Balance<br>(as restated)<br>7/1/17 | Additions         | Reductions        | Balance<br>(as restated)<br>6/30/18 | Amounts<br>Due<br>Within<br>One Year |
|-------------------------------|------------------------------------|-------------------|-------------------|-------------------------------------|--------------------------------------|
| Homeownership bond funds, par | \$ 768,640                         | \$ 308,640        | \$ 126,620        | \$ 950,660                          | \$ 18,095                            |
| Premium on bond funds         | 14,816                             | 7,424             | 4,694             | 17,546                              | 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>\$ 786,256</u>                  | <u>\$ 319,103</u> | <u>\$ 132,706</u> | <u>\$ 972,653</u>                   | <u>\$ 20,253</u>                     |

See Note 15 and Note 16 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> |
|------------------------------|---------------------|-------------------|---------------------------|
| 2020                         | \$ 34,265           | \$ 35,941         | \$ 70,206                 |
| 2021                         | 52,725              | 38,360            | 91,085                    |
| 2022                         | 42,315              | 37,162            | 79,477                    |
| 2023                         | 42,855              | 36,215            | 79,070                    |
| 2024                         | 42,110              | 35,211            | 77,321                    |
| 2025 - 2029                  | 201,360             | 160,109           | 361,469                   |
| 2030 - 2034                  | 201,180             | 130,202           | 331,382                   |
| 2035 - 2039                  | 221,765             | 95,869            | 317,634                   |
| 2040 - 2044                  | 211,960             | 58,543            | 270,503                   |
| 2045 - 2049                  | 181,645             | 19,568            | 201,213                   |
| 2049 - 2050                  | 8,070               | 195               | 8,265                     |
| Premiums                     | 22,146              | (22,146)          | -                         |
|                              | <u>\$ 1,262,396</u> | <u>\$ 625,229</u> | <u>\$ 1,887,625</u>       |

**Schedules of Bonds Payable**

The following summarizes the Agency's bonds payable outstanding at June 30, 2019 and 2018. 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>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|-------------|-------------|
| Series 2008 B                    |                      |             |             |
| Term Bond 07/1/2038              | Variable             | \$ 12,735   | \$ 12,735   |
| Series 2009 CD                   |                      |             |             |
| Serial Bonds 1/1/11 - 7/1/21     | 1.00 - 4.13          | -           | 395         |
| PAC Term Bond 1/1/2029 (Premium) | 5.25                 | -           | 630         |
| Premium (Discount)               |                      | -           | 7           |
| Series 2010 AB                   |                      |             |             |
| PAC Term Bond 7/1/2028 (Premium) | 5.00                 | -           | 1,055       |
| Premium (Discount)               |                      | -           | 6           |

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|                                  | Interest<br>Rate | 2019   | 2018   |
|----------------------------------|------------------|--------|--------|
| <b>Series 2010 CD</b>            |                  |        |        |
| Term Bond 1/1/29 (Premium)       | 4.50             | \$ 235 | \$ 960 |
| Premium (Discount)               |                  | 1      | 5      |
| <b>Series 2010 EF</b>            |                  |        |        |
| Serial Bonds 7/1/11 - 7/1/20     | 0.60 - 3.45      | 220    | 765    |
| PAC Term Bond 7/1/2041 (Premium) | 4.50             | 935    | 2,425  |
| PAC Term Bond 1/1/2035 (Premium) | 4.50             | 1,290  | 2,950  |
| Premium (Discount)               |                  | 22     | 57     |
| <b>Series 2011 AB</b>            |                  |        |        |
| Serial Bonds 7/1/12 - 7/1/22     | 0.35 - 4.00      | 975    | 1,945  |
| Term Bond 1/1/28 (Premium)       | 4.50             | 1,540  | 2,285  |
| Premium (Discount)               |                  | 23     | 46     |
| <b>Series 2011 CD</b>            |                  |        |        |
| Serial Bonds 1/1/13 - 7/1/22     | 0.85 - 3.70      | 2,175  | 2,550  |
| Term Bond 7/1/28 (Premium)       | 4.25             | 345    | 760    |
| Premium (Discount)               |                  | 2      | 6      |
| <b>Series 2012 AB</b>            |                  |        |        |
| Serial Bonds 7/1/13 - 7/1/21     | 0.60 - 3.05      | 3,755  | 5,560  |
| Serial Bonds 7/1/21 - 7/1/24     | 2.75 - 3.05      | 6,030  | 6,165  |
| Term Bond 7/1/27                 | 3.35             | -      | 1,240  |
| Term Bond 7/1/42 (Premium)       | 3.75             | 4,830  | 7,795  |
| Premium (Discount)               |                  | 130    | 221    |
| <b>Series 2013 A</b>             |                  |        |        |
| Serial Bonds 7/1/14 - 7/1/23     | 0.45 - 3.80      | 1,470  | 3,650  |
| Term Bond 7/1/43 (Premium)       | 3.50             | 7,070  | 11,625 |
| Premium (Discount)               |                  | 94     | 170    |
| <b>Series 2014 AB</b>            |                  |        |        |
| Serial Bonds 1/1/15 - 7/1/25     | 0.20 - 3.15      | 8,950  | 14,300 |
| Term Bond 7/1/34 (Premium)       | 4.00             | 9,210  | 12,185 |
| Term Bond 7/1/44                 | Variable         | 27,055 | 27,055 |
| Premium (Discount)               |                  | 339    | 531    |
| <b>Series 2015A</b>              |                  |        |        |
| Serial Bonds 7/1/15 - 7/1/26     | 0.20 - 3.10      | 15,130 | 16,700 |
| Term Bond 7/1/30                 | 3.38             | 6,325  | 7,200  |
| Term Bond 1/1/38 (Premium)       | 4.00             | 9,005  | 12,380 |
| Premium (Discount)               |                  | 394    | 603    |

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|                              | Interest<br>Rate | 2019      | 2018      |
|------------------------------|------------------|-----------|-----------|
| <b>Series 2015BC</b>         |                  |           |           |
| Serial Bonds 1/1/16 - 7/1/25 | 0.40 - 3.05      | \$ 15,460 | \$ 18,000 |
| Term Bond 1/1/36 (Premium)   | 4.00             | 13,615    | 17,525    |
| Term Bond 1/1/46             | Variable         | 17,700    | 17,700    |
| Premium (Discount)           |                  | 527       | 776       |
| <b>Series 2015DE</b>         |                  |           |           |
| Serial Bonds 7/1/16 - 1/1/26 | 0.45 - 2.90      | 18,230    | 19,915    |
| Term Bond 7/1/46 (Premium)   | 4.00             | 16,905    | 21,600    |
| Term Bond 7/1/36             | Variable         | 25,000    | 25,000    |
| Premium (Discount)           |                  | 714       | 1,020     |
| <b>Series 2015F</b>          |                  |           |           |
| Term Bond 1/1/47             | Variable         | 25,000    | 25,000    |
| <b>Series 2016AB</b>         |                  |           |           |
| Serial Bonds 1/1/17 - 1/1/19 | 0.85 - 1.30      | -         | 550       |
| Serial Bonds 1/1/19 - 7/1/27 | 1.05 - 2.60      | 44,765    | 46,565    |
| Term Bond 7/1/31             | 2.95             | 17,750    | 19,765    |
| Term Bond 1/1/35             | 3.20             | 13,725    | 14,110    |
| Term Bond 1/1/47 (Premium)   | 4.00             | 35,990    | 46,045    |
| Premium (Discount)           |                  | 2,098     | 2,862     |
| <b>Series 2016CDE</b>        |                  |           |           |
| Serial Bonds 1/1/17 - 7/1/22 | 1.00 - 1.95      | 4,005     | 4,055     |
| 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    | 13,750    |
| Term Bond 7/1/32             | 2.85             | 18,955    | 21,435    |
| Term Bond 1/1/36             | 3.15             | 18,540    | 20,970    |
| Term Bond 7/1/46 (Premium)   | 3.50             | 40,285    | 48,510    |
| Premium (Discount)           |                  | 2,205     | 2,917     |
| <b>Series 2017A</b>          |                  |           |           |
| Serial Bonds 1/1/18 - 7/1/28 | 1.10 - 3.05      | 30,420    | 32,700    |
| Term Bond 7/1/32             | 3.55             | 10,225    | 10,465    |
| Term Bond 7/1/34             | 3.70             | 4,430     | 4,530     |
| Term Bond 7/1/47 (Premium)   | 4.00             | 24,425    | 26,200    |
| Premium (Discount)           |                  | 1,237     | 1,639     |
| <b>Series 2017BC</b>         |                  |           |           |
| Serial Bonds 7/1/18 - 7/1/24 | 1.60 - 3.15      | 9,795     | 11,060    |
| Term Bond 1/1/47             | Variable         | 13,940    | 13,940    |

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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|                               | Interest<br>Rate | 2019     | 2018     |
|-------------------------------|------------------|----------|----------|
| <b>Series 2017DE</b>          |                  |          |          |
| Serial Bonds 7/1/18 - 7/1/22  | 1.05 - 1.90      | \$ 6,295 | \$ 7,265 |
| Serial Bonds 7/1/22 - 7/1/28  | 1.50 - 2.70      | 13,975   | 13,975   |
| Term Bonds 7/1/32             | 3.15             | 10,625   | 10,625   |
| Term Bonds 7/1/37             | 3.45             | 15,415   | 15,925   |
| Term Bonds 7/1/40             | 3.55             | 8,440    | 8,960    |
| Term Bonds 7/1/47 (Premium)   | 4.00             | 28,770   | 30,410   |
| Premium (Discount)            |                  | 1,992    | 2,583    |
| <b>Series 2017FGH</b>         |                  |          |          |
| Serial Bonds 1/1/19 - 1/1/25  | 1.55 - 2.55      | 14,330   | 15,450   |
| Serial Bonds 1/1/25 - 7/1/208 | 2.55 - 3.00      | 9,875    | 9,875    |
| Term Bonds 7/1/31             | 3.35             | 8,120    | 9,155    |
| Term Bonds 7/1/48 (Premium)   | 4.00             | 31,490   | 32,720   |
| Term Bond 7/1/39              | Variable         | 28,250   | 28,250   |
| Premium (Discount)            |                  | 1,675    | 2,142    |
| <b>Series 2018A</b>           |                  |          |          |
| Serial Bonds 7/1/19 - 7/1/29  | 1.85 - 3.20      | 25,180   | 25,180   |
| Term Bonds 7/1/33             | 3.55             | 11,710   | 11,710   |
| Term Bonds 7/1/38             | 3.75             | 17,120   | 17,120   |
| Term Bonds 1/1/42             | 3.85             | 13,490   | 13,490   |
| Term Bonds 7/1/49 (Premium)   | 4.00             | 32,375   | 32,500   |
| Premium (Discount)            |                  | 1,546    | 1,955    |
| <b>Series 2018BC</b>          |                  |          |          |
| Serial Bonds 7/1/19 - 7/1/28  | 2.50 - 3.80      | 15,645   | 15,645   |
| Term Bond 1/1/49              | Variable         | 9,355    | 9,355    |
| <b>Series 2018D</b>           |                  |          |          |
| Serial Bonds 7/1/19 - 7/1/30  | 1.55 - 3.3       | 33,420   | -        |
| Term Bond 7/1/33              | 3.55             | 10,835   | -        |
| Term Bond 7/1/38              | 3.85             | 20,945   | -        |
| Term Bond 7/1/42              | 3.95             | 19,350   | -        |
| Term Bond 1/1/49 (premium)    | 4.25             | 40,450   | -        |
| Premium (discount)            |                  | 2,461    |          |

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|                                       | Interest<br>Rate | 2019                | 2018              |
|---------------------------------------|------------------|---------------------|-------------------|
| Series 2019AB                         |                  |                     |                   |
| Serial Bonds 1/1/20 - 7/1/31          | 1.75 - 3.2       | \$ 23,450           | \$ -              |
| Term Bonds 7/1/33                     | 3.375            | 4,945               | -                 |
| Term Bonds 7/1/35                     | 3.5              | 4,010               | -                 |
| Term Bonds 7/1/42                     | variable         | 25,000              | -                 |
| Term Bond 7/1/49 (premium)            | 4.25             | 27,595              | -                 |
| Premium (discount)                    |                  | 1,862               | -                 |
| Series 2019C                          |                  |                     |                   |
| Serial Bonds 7/1/20 - 7/1/30          | 1.6 - 2.6        | 32,675              | -                 |
| Term Bonds 7/1/32                     | 2.8              | 7,455               | -                 |
| Term Bonds 7/1/34                     | 3                | 8,000               | -                 |
| Term Bonds 7/1/39                     | 3.2              | 22,810              | -                 |
| Term Bonds 7/1/42                     | 3.35             | 14,705              | -                 |
| Term Bonds 1/1/50 (premium)           | 4                | 49,355              | -                 |
| Premium (discount)                    |                  | 4,824               | -                 |
| Series 2019DE                         |                  |                     |                   |
| Serial Bonds 7/1/20 - 7/1/29          | 2.5 - 3.45       | 4,980               | -                 |
| Term Bonds 7/1/33                     | 3.7              | 2,705               | -                 |
| Term Bonds 7/1/39                     | 4                | 5,050               | -                 |
| Term Bonds 1/1/50                     | variable         | 12,265              | -                 |
| 2018 Multifamily Revenue Bonds 8/1/20 | 2.125            | 9,250               | -                 |
|                                       |                  | <u>\$ 1,262,396</u> | <u>\$ 968,205</u> |

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

### Revenues Pledged

The Agency has homeownership bonds outstanding in the amount of \$1,253,146 maturing at various times from July 1, 2019 through January 1, 2050. 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 \$104,082 and \$23,532, respectively for the year ended June 30, 2019. 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.

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



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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.

The Agency also had multifamily revenue bonds in the amount of \$9,250 that mature on August 1, 2020. The bonds have been issued to pay a portion of the cost of acquiring, rehabilitation and equipping a 186 unit multifamily residential rental property located in Fargo, North Dakota. The bonds will be payable solely from the revenues and other money assigned to secure that payment, which include payments required by the loan agreement. Such payment shall cover the entire principal and interest payment for the bond.

## **NOTE 12 FINANCIAL DERIVATIVE INSTRUMENT**

### **Objective of the Interest Rate Swap**

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

### **Terms**

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

### **Credit Risk**

As of June 30, 2019, the Agency had no swaps with a positive fair value. As of June 30, 2018, the Agency had five swaps that had a positive fair value totaling \$2,267. 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.

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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, 2019 the Agency owed the swap providers a fixed rate on the notional amount of the swaps of \$2,566 and the swap providers owed the Agency a variable rate on the notional amounts of \$1,657 making the net payment that the Agency owe the swap providers \$909.

**Fair Value**

Due to the difference in the variable rate indices, the swaps had a net negative fair value<sup>10</sup> of \$7,886 at June 30, 2019 and a net positive fair value<sup>10</sup> \$1,239 at June 30, 2018. 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, 2019 and 2018. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

**Basis Risk**

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate<sup>6</sup> and the synthetic rate<sup>12</sup> as of June 30, 2019 and 2018. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

**Termination Risk**

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

**Rollover Risk**

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

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The terms of the interest rate swaps at June 30, 2019 are as follows:

|    |                           |           |           |            |           |
|----|---------------------------|-----------|-----------|------------|-----------|
| 1  | Bond Series               | 2008 B    | 2014 B    | 2015 C     | 2015 E    |
| 2  | Issuance Date             | 3/26/2008 | 6/24/2014 | 6/23/2015  | 5/1/2016  |
| 3  | Maturity Date             | 7/1/2038  | 7/1/2044  | 1/1/2046   | 7/1/2036  |
| 4  | Notional Amount           | 5         | 27,055    | 17,700     | 25,000    |
| 5  | Variable-rate Bonds       | 5         | 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       | 2.36000%  | 1.97000%  | 2.63000%   | N/A       |
| 10 | Fair Value                | (127)     | (839)     | (465)      | (590)     |
| 11 | Percentage of LIBOR       | 2.39800%  | 1.74788%  | 1.68748%   | 1.81227%  |
| 12 | Synthetic Rate            | 4.68700%  | 3.11212%  | 3.42852%   | 0.44473%  |
| 13 | Actual Synthetic Rate     | 4.92102%  | 2.77968%  | 3.17451%   | 2.39800%  |
| 14 | Change in Fair Value      | (128)     | 348       | (635)      | (946)     |
| 15 | Optional Termination Date | 1/1/2020  | N/A       | 7/1/2020   | 7/1/2020  |
| 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           | 21        | 20,545    | 28,250     | 9,355     |
| 5  | Variable-rate Bonds       | 21        | 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       | 2.38000%  | 2.37408%  | 1.92000%   | 2.38000%  |
| 10 | Fair Value                | (183)     | (1,138)   | (1,188)    | (1,121)   |
| 11 | Percentage of LIBOR       | 2.39800%  | 2.39800%  | 1.68227%   | 2.39800%  |
| 12 | Synthetic Rate            | 2.30200%  | 2.75858%  | 2.50373%   | 3.49700%  |
| 13 | Actual Synthetic Rate     | 2.28243%  | 2.69555%  | 2.22250%   | 3.40774%  |
| 14 | Change in Fair Value      | 1,199     | 1,684     | 1,367      | 839       |
| 15 | Optional Termination Date | 1/1/2025  | 7/1/2027  | 7/1/2023   | 7/1/2027  |
| 1  | Bond Series               | 2019B     | 2019E     |            |           |
| 2  | Issuance Date             | 2/13/2019 | 6/25/2019 |            |           |
| 3  | Maturity Date             | 1/1/2043  | 1/1/2050  |            |           |
| 4  | Notional Amount           | 25        | 12        |            |           |
| 5  | Variable-rate Bonds       | 25        | 12        |            |           |
| 6  | Fixed Rate                | 2.693%    | 3.171%    |            |           |
| 7  | LIBOR Percentage          | 70.00%    | 100.00%   |            |           |
| 8  | Additional Percentage     | 0.00%     | 0.00%     |            |           |
| 9  | Bonds Variable-rate       | 2.30000%  | 2.30000%  |            |           |
| 10 | Fair Value                | (1,417)   | (818)     |            |           |
| 11 | Percentage of LIBOR       | 1.67860%  | 2.39800%  |            |           |
| 12 | Synthetic Rate            | 3.31390%  | 3.07300%  |            |           |
| 13 | Actual Synthetic Rate     | 3.08702%  | 3.43035%  |            |           |
| 14 | Change in Fair Value      | (1,417)   | (818)     |            |           |
| 15 | Optional Termination Date | 1/1/2024  | 7/1/2028  |            |           |

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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 | 6/23/2015  | 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  |
| 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  |

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**Swap Payments and Associated Debt**

Using rates as of June 30, 2019, 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, 2019. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| Fiscal year<br>Ending June 30 | Variable-Rate Bond |                  | Interest Rate    | Total             |
|-------------------------------|--------------------|------------------|------------------|-------------------|
|                               | Principal          | Interest         | Swap, Net        |                   |
| 2020                          | \$ 2,545           | \$ 3,694         | \$ 1,810         | \$ 8,049          |
| 2021                          | 2,335              | 3,637            | 1,799            | 7,771             |
| 2022                          | 2,130              | 3,585            | 1,789            | 7,504             |
| 2023                          | 1,945              | 3,538            | 1,780            | 7,263             |
| 2024                          | 1,775              | 3,495            | 1,773            | 7,043             |
| 2025 - 2029                   | 22,865             | 16,445           | 8,387            | 47,697            |
| 2030 - 2034                   | 34,765             | 14,392           | 6,586            | 55,743            |
| 2035 - 2039                   | 61,750             | 10,067           | 3,991            | 75,808            |
| 2040 - 2044                   | 47,005             | 4,013            | 1,518            | 52,536            |
| 2045 - 2049                   | 12,900             | 665              | 219              | 13,784            |
| 2050 - 2054                   | 1,710              | 14               | 5                | 1,729             |
|                               | <u>\$ 191,725</u>  | <u>\$ 63,545</u> | <u>\$ 29,657</u> | <u>\$ 284,927</u> |

**NOTE 13 LINE OF CREDIT - 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, 2019 and 2018:

|   |               |
|---|---------------|
| Balance July 1, 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, 2019, the line of credit has no outstanding balance, has a credit limit of \$60,000 and expires on July 1, 2020. The line of credit bears interest at 1.50% over the 1 month LIBOR index with a minimum interest rate of 2.25%. The Agency did not make draws on this line of credit during the year ending June 30, 2019. As of June 30, 2018, 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, 2019. 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 LETTER OF CREDIT - FEDERAL HOME LOAN BANK OF DES MOINES**

The following is a summary of changes in the letter of credit with the Federal Home Loan Bank (FHLB) of Des Moines for the year ended June 30, 2019. There were draws on the letter of credit during fiscal year 2018, as the Agency entered into the letter of credit on June 28, 2018.

|  |        |          |
|--|--------|----------|
| Balance June 1, 2018                                       | \$     | -        |
| Principal payments on advance from Federal Home Loan Banks |        | (37,353) |
| Loan advance from Federal Home Loan Banks                  |        | 37,353   |
|  |        | 37,353   |
| <br>Balance June 30, 2019                                  | <br>\$ | <br>-    |

The Agency maintains a collateral pledge agreement with the FHLB covering secured advances whereby the Agency has agreed to retain residential real estate loans and marketable securities, free of all other pledges, liens and encumbrances. The pledged loans and securities are discounted by FHLB when determining their borrowing capacity. The aggregate borrowing capacity of eligible collateral was approximately \$85,066 as of June 30, 2019. In addition, borrowings are collateralized by \$30,673 of loans receivable and \$136 of cash and investments.

**NOTE 15 PENSION PLAN**

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

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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.



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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.

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

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

At June 30, 2019 and 2018, the Agency reported a liability of \$4,000 and \$3,906 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018, the Agency's proportion was 0.236966 percent, which was a decrease of 0.006028 percent from its proportion measured of 0.242994 as of June 30, 2017.

For the year ended June 30, 2019, the Agency recognized pension expense of \$636. At June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 11   | \$ (136)                                     |
| Changes of assumptions  | 1,443   | (57)   |
| Net difference between projected and actual earnings on pension plan investments                              | -   | (19)   |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 49  | (112)  |
| Employer contributions subsequent to the measurement date   | <u>174</u>                                    | <u>-</u>                                     |
| Total   | <u>\$ 1,677</u>                               | <u>\$ (324)</u>                              |

\$174 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, 2020.

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: |        |
| 2020                | \$ 388 |
| 2021                | 335    |
| 2022                | 287    |
| 2023                | 162    |
| 2024                | 7      |



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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:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| 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   | 179                                  | -                                   |
| Total   | \$ 1,919                             | \$ (198)                            |

\$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.

**Actuarial Assumptions**

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

|                  |   |                       |
|------------------|---|-----------------------|
| Inflation        | 2.50%   |                       |
| Salary increases | <u>Service At</u><br><u>Beginning of Year</u> | <u>State Employee</u> |
|                  | 0   | 12.00%                |
|                  | 1   | 9.50%                 |
|                  | 2   | 7.25%                 |
|                  | <u>Age</u>                                    |                       |
|                  | Under 30                                      | 7.25%                 |
|                  | 30-39   | 6.50%                 |
|                  | 40-49   | 6.25%                 |
|                  | 50-59   | 5.75%                 |
|                  | 60+   | 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                              |

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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.

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, 2019 and 2018 is summarized in the following table:

| Asset Class                   | 2019<br>Target<br>Allocation | Long-Term Expected<br>Real Rate of Return<br>2019 | Long-Term Expected<br>Real Rate of Return<br>2018 |
|-------------------------------|------------------------------|---|---|
| Domestic Equity               | 30%                          | 6.05%   | 6.05%   |
| International Equity          | 21%                          | 6.71%   | 6.70%   |
| Private Equity                | 7%                           | 10.20%  | 10.20%  |
| Domestic Fixed<br>Income      | 23%                          | 1.45%   | 1.43%   |
| International Fixed<br>Income | 0%                           | 0.00%   | -0.45%  |
| Global Real Assets            | 19%                          | 5.11%   | 5.16%   |

**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).

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For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

**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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate at June 30, 2019:

|   | 1% Decrease<br>5.32% | Current<br>Discount Rate<br>6.32% | 1% Increase<br>7.32% |
|---|----------------------|-----------------------------------|----------------------|
| Employer's proportionate share of the net pension liability | <u>\$ 5,434</u>      | <u>\$ 4,000</u>                   | <u>\$ 2,802</u>      |

**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.

**NOTE 16 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.

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**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.

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

At June 30, 2019 and 2018, the Agency reported a liability of \$190 and \$191 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 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, 2019, the Agency's proportion was 0.241393 percent, which is an increase of 0.000352 percent from its proportion measured of 0.241038 percent as of June 30, 2018.

For the year ended June 30, 2019, the Employer recognized OPEB expense of \$23. At June 30, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 6  | \$ (4)                                       |
| Changes of assumptions  | 15  | -  |
| Net difference between projected and actual earnings on OPEB plan investments                                 | -   | (5)  |
| 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>\$ 51</u>                                  | <u>\$ (11)</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, 2020.

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 December 31:

|            |      |
|------------|------|
| 2020       | \$ 1 |
| 2021       | 1    |
| 2022       | 1    |
| 2023       | 3    |
| 2024       | 3    |
| Thereafter | 2    |

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:

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|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| 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   | 30                                   | -                                   |
| Total   | \$ 49                                | \$ (14)                             |

\$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.

**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, 2018 and 2019 are summarized in the following table:

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| Asset Class               | 2019<br>Target<br>Allocation | Long-Term Expected<br>Real Rate of Return<br>2019 | Long-Term Expected<br>Real Rate of Return<br>2018 |
|---------------------------|------------------------------|---|---|
| Large Cap                 |                              |   |   |
| Domestic Equities         | 37%                          | 7.15%   | 5.80%   |
| Small Cap                 |                              |   |   |
| Domestic Equities         | 9%                           | 14.42%  | 7.05%   |
| International             |                              |   |   |
| Equities                  | 14%                          | 8.83%   | 6.20%   |
| Core-Plus Fixed<br>Income | 40%                          | 0.10%   | 1.56%   |

**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, 2018, and July 1, 2017, 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, 2018, 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<br>6.50% | Current<br>Discount Rate<br>7.50% | 1% Increase<br>8.50% |
|---|----------------------|-----------------------------------|----------------------|
| Employer's proportionate share of<br>the net OPEB liability | \$ 241               | \$ 190                            | \$ 147               |

**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.



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**NOTE 17 COMMITMENTS AND CONTINGENCIES**

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

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

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

|                              | 2019      | 2018      |
|------------------------------|-----------|-----------|
| Commitments to extend credit | \$ 524    | \$ 35,812 |
| Loan Acquisition Fund        | \$ 53,474 | \$ 11,136 |

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.

**NOTE 18 REBATE DUE TO IRS**

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

|             | 2019  | 2018  |
|-------------|-------|-------|
| Series 15 A | \$ 90 | \$ 38 |



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

|                             | 2019  | 2018   |
|-----------------------------|-------|--------|
| Beginning balance, July 1   | \$ 38 | \$ 102 |
| Additions                   | 52    | 6      |
| Reductions                  | -     | (70)   |
| Ending balance, June 30     | \$ 90 | \$ 38  |
| Amounts due within one year | \$ 81 | \$ -   |

**NOTE 19 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 20 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

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Agency with blanket fidelity bond coverage in the amount of \$2,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

**NOTE 21 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, 2019, was as follows:

|                                | Agency<br>Operating<br>Funds | Homeownership<br>Bond Funds | Eliminations    | Total<br>Enterprise |
|--------------------------------|------------------------------|-----------------------------|-----------------|---------------------|
| Statement of Net Position      |                              |                             |                 |                     |
| Current assets - other         | \$ 36,039                    | \$ 262,372                  | \$ (17,821)     | \$ 280,590          |
| Capital assets - net           | 13                           | -                           | -               | 13                  |
| Noncurrent assets - other      | 10,289                       | 1,207,583                   | -               | 1,217,872           |
| Total assets                   | <u>46,341</u>                | <u>1,469,955</u>            | <u>(17,821)</u> | <u>1,498,475</u>    |
| Deferred outflow of resources  | <u>1,728</u>                 | <u>7,886</u>                | <u>-</u>        | <u>9,614</u>        |
| Current liabilities - other    | 18,393                       | 72,717                      | (17,821)        | 73,289              |
| Noncurrent liabilities - other | 18,010                       | 1,221,211                   | -               | 1,239,221           |
| Total liabilities              | <u>36,403</u>                | <u>1,293,928</u>            | <u>(17,821)</u> | <u>1,312,510</u>    |
| Deferred inflow of resources   | <u>335</u>                   | <u>-</u>                    | <u>-</u>        | <u>335</u>          |
| Invested in capital assets     | 13                           | -                           | -               | 13                  |
| Net position - unrestricted    | 11,318                       | -                           | -               | 11,318              |
| Net position - restricted      | -                            | 183,913                     | -               | 183,913             |
| Total net position             | <u>\$ 11,331</u>             | <u>\$ 183,913</u>           | <u>\$ -</u>     | <u>\$ 195,244</u>   |

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Statement of Net Position segment information as of and for the year ended June 30, 2018 (restated), was as follows:

|                                | Agency<br>Operating<br>Funds | Homeownership<br>Bond Funds | Eliminations    | Total<br>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  | 1,968                        | -                           | -               | 1,968               |
| Current liabilities - other    | 15,122                       | 60,033                      | (29,215)        | 45,940              |
| Noncurrent liabilities - other | 8,587                        | 946,980                     | -               | 955,567             |
| Total liabilities              | <u>23,709</u>                | <u>1,007,013</u>            | <u>(29,215)</u> | <u>1,001,507</u>    |
| Deferred inflow of resources   | 212                          | 1,239                       | -               | 1,451               |
| Invested in capital assets     | 11                           | -                           | -               | 11                  |
| Net position - unrestricted    | 9,228                        | -                           | -               | 9,228               |
| Net position - restricted      | -                            | 173,892                     | -               | 173,892             |
| Total net position             | <u>\$ 9,239</u>              | <u>\$ 173,892</u>           | <u>\$ -</u>     | <u>\$ 183,131</u>   |

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, 2019, was as follows:

|  | Agency<br>Operating<br>Funds | Homeownership<br>Bond Funds | Eliminations | Total<br>Enterprise |
|--|------------------------------|-----------------------------|--------------|---------------------|
| Statement of Revenues, Expenses and<br>Change in Fund Net Position |                              |                             |              |                     |
| Operating revenues   |                              |                             |              |                     |
| Mortgage interest income   | \$ 100                       | \$ 40,628                   | \$ -         | \$ 40,728           |
| Investment income  | -                            | 5,460                       | -            | 5,460               |
| Gain on sale of investments  | -                            | 79                          | -            | 79                  |
| Fee income   | 9,406                        | -                           | (6,292)      | 3,114               |
| Depreciation   | (5)                          | -                           | -            | (5)                 |
| Other operating expenses   | (8,015)                      | (36,115)                    | 6,292        | (37,838)            |
| Operating income   | <u>1,486</u>                 | <u>10,052</u>               | <u>-</u>     | <u>11,538</u>       |
| Nonoperating revenues (expenses)                                   |                              |                             |              |                     |
| Federal grants   | 14,868                       | -                           | -            | 14,868              |
| Non-federal grants   | 2                            | -                           | -            | 2                   |
| Investment income  | 461                          | -                           | -            | 461                 |
| Federal grants   | (14,868)                     | -                           | -            | (14,868)            |
| Transfers  | 112                          | -                           | -            | 112                 |
| Change in net position   | <u>2,061</u>                 | <u>10,052</u>               | <u>-</u>     | <u>12,113</u>       |
| Total net position, beginning of year,<br>as originally stated     | 9,239                        | 173,892                     | -            | 183,131             |
| Prior period adjustment  | -                            | -                           | -            | -                   |
| Total net position, beginning of year, restated                    | 9,239                        | 173,892                     | -            | 183,131             |
| Equity transfer in (out)   | 31                           | (31)                        | -            | -                   |
| Total net position, end of year                                    | <u>\$ 11,331</u>             | <u>\$ 183,913</u>           | <u>\$ -</u>  | <u>\$ 195,244</u>   |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

|   | Agency<br>Operating<br>Funds | Homeownership<br>Bond Funds | Eliminations | Total<br>Enterprise |
|---|------------------------------|-----------------------------|--------------|---------------------|
| <b>Statement of Cash Flows</b>                                |                              |                             |              |                     |
| Net cash used by operating activities                         | \$ 4,256                     | \$ (201,611)                | \$ -         | \$ (197,355)        |
| Net cash used for noncapital<br>financing activities          | 8,992                        | 267,010                     | -            | 276,002             |
| Net cash used for capital and related<br>financing activities | (7)                          | -                           | -            | (7)                 |
| Net cash from (used by) investing activities                  | (6,496)                      | (22,204)                    | -            | (28,700)            |
| Change in cash and cash equivalents                           | 6,745                        | 43,195                      | -            | 49,940              |
| Cash and cash equivalents,<br>beginning of year               | 18,064                       | 170,531                     | -            | 188,595             |
| Cash and cash equivalents, end of year                        | <u>\$ 24,809</u>             | <u>\$ 213,726</u>           | <u>\$ -</u>  | <u>\$ 238,535</u>   |

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<br>Operating<br>Funds | Homeownership<br>Bond Funds | Eliminations | Total<br>Enterprise |
|--|------------------------------|-----------------------------|--------------|---------------------|
| <b>Statement of Revenues, Expenses and<br/>Change in Fund Net Position</b> |                              |                             |              |                     |
| <b>Operating revenues</b>  |                              |                             |              |                     |
| 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)                      | (27,895)                    | 5,845        | (29,901)            |
| Operating income   | <u>1,103</u>                 | <u>8,832</u>                | <u>-</u>     | <u>9,935</u>        |
| <b>Nonoperating revenues (expenses)</b>                                    |                              |                             |              |                     |
| 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>8,832</u>                | <u>-</u>     | <u>10,005</u>       |
| Total net position, beginning of year,<br>as previously reported           | 7,324                        | 163,049                     | -            | 170,373             |
| Prior period adjustment  | -                            | 2,753                       | -            | 2,753               |
| Total net position, beginning of year, restated                            | 7,324                        | 165,802                     | -            | 173,126             |
| Equity transfer in (out)   | 742                          | (742)                       | -            | -                   |
| Total net position, end of year  | <u>\$ 9,239</u>              | <u>\$ 173,892</u>           | <u>\$ -</u>  | <u>\$ 183,131</u>   |
| <b>Statement of Cash Flows</b>   |                              |                             |              |                     |
| Net cash by operating activities   | \$ (39)                      | \$ (94,793)                 | \$ -         | \$ (94,832)         |
| Net cash used for noncapital<br>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,<br>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>   |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

**NOTE 22 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> |    |     |
|-----------------------------|----|-----|
| 2020                        | \$ | 228 |
| 2021                        |    | 227 |

Total rental expense was \$217 and \$219 for the years ended June 30, 2019 and 2018.

**NOTE 23 RESTATEMENTS**

**Change in Accounting Principle**

In previous years, the Agency accounted for bond premiums and discounts under the straight-line method. In 2019, the Agency changed its method of accounting for bond premiums and discounts to the effective interest rate method and retroactively restated their financial statements as if this method was always used. As a result of the differences in methods, a prior period adjustment of \$2,753 was recorded to decrease premiums on bond funds and increase net position as of July 1, 2017. In addition, the 2018 financial statements were restated to reflect the effective interest rate method which resulted in a decrease of \$1,350 of interest expense and premiums on bond funds.

**Correction of Error**

The Agency has corrected its 2018 financial statements to properly record its' financial derivative instrument. The effect of this adjustment was to decrease noncurrent liabilities, specifically, financial derivative instrument by \$2,478, decrease deferred outflows of resources / financial derivative instrument by \$1,239 and increase deferred inflows of resources / financial derivative instrument by \$1,239.

**NOTE 24 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. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations,

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

**NOTE 26 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Agency's year end. Subsequent events have been evaluated through October 14, 2019, the date these financial statements were available to be issued.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(In Thousands)

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

|      | <u>Employer's<br/>proportion of the<br/>net pension<br/>liability (asset)</u> | <u>Employer's<br/>proportionate<br/>share of the<br/>net pension<br/>liability (asset)</u> | <u>Employer's<br/>covered-<br/>employee<br/>payroll</u> | <u>Employer's<br/>proportionate share<br/>of the net pension<br/>liability (asset) as a<br/>percentage of its<br/>covered-employee<br/>payroll</u> | <u>Plan fiduciary<br/>net position as<br/>a percentage<br/>of the total<br/>pension liability</u> |
|------|---|--|---|--|---|
| 2019 | 0.236966%   | \$ 4,000   | \$ 2,510  | 159.36%  | 62.80%  |
| 2018 | 0.242994%   | 3,906  | 2,481   | 157.44%  | 61.98%  |
| 2017 | 0.232841%   | 2,269  | 2,346   | 96.72%   | 70.46%  |
| 2016 | 0.243446%   | 1,655  | 2,169   | 76.30%   | 77.15%  |
| 2015 | 0.252770%   | 1,604  | 2,129   | 75.34%   | 77.70%  |

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

|      | <u>Statutorily<br/>required<br/>contribution</u> | <u>Contributions in<br/>relation to the<br/>statutorily required<br/>contribution</u> | <u>Contribution<br/>deficiency<br/>(excess)</u> | <u>Employer's<br/>covered-<br/>employee<br/>payroll</u> | <u>Contributions as a<br/>percentage of<br/>covered-employee<br/>payroll</u> |
|------|--|---|---|---|--|
| 2019 | \$ 174   | \$ (174)  | \$ -  | \$ 2,443  | 7.12%  |
| 2018 | 179  | (179)   | -   | 2,510   | 7.13%  |
| 2017 | 180  | (180)   | -   | 2,474   | 7.28%  |
| 2016 | 170  | (170)   | -   | 2,314   | 7.35%  |
| 2015 | 165  | (165)   | -   | 2,229   | 7.40%  |

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

**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2019**

**Changes of Assumptions**

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(In Thousands)

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

|      | Employer's<br>proportion of the<br>net OPEB<br>(asset) | Employer's<br>proportionate<br>share of the<br>net OPEB<br>liability (asset) | Employer's<br>covered-<br>employee<br>payroll | Employer's<br>proportionate share<br>of the net OPEB<br>liability (asset) as a<br>percentage of its<br>covered-employee<br>payroll | Plan fiduciary<br>net position as<br>a percentage<br>of the total<br>OPEB liability |
|------|--|--|---|--|---|
| 2019 | 0.241393%  | \$ 190   | \$ 2,661                                      | 7.15%  | 61.89%  |
| 2018 | 0.241038%  | 191  | 2,608   | 7.31%  | 58.78%  |

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

|      | Statutorily<br>required<br>contribution | Contributions in<br>relation to the<br>statutorily required<br>contribution | Contribution<br>deficiency<br>(excess) | Employer's<br>covered-<br>employee<br>payroll | Contributions as<br>a percentage of<br>covered-<br>employee payroll |
|------|---|---|--|---|---|
| 2019 | \$ 30                                   | \$ (30)   | \$ -                                   | \$ 2,618                                      | 1.14%   |
| 2018 | 30                                      | (30)  | -                                      | 2,661   | 1.13%   |

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

**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2019**

**Changes of Assumptions**

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

|  | Homeownership Bond Funds |                         | Homeownership Bond Funds |                          | Elimination | Total     |           |
|--|--------------------------|-------------------------|--------------------------|--------------------------|-------------|-----------|-----------|
|  | Agency Operating Funds   | 1994 General Resolution | 2009 General Resolution  | Homeownership Bond Funds |             | 2019      | 2018      |
| <b>ASSETS</b>                              |                          |                         |                          |                          |             |           |           |
| <b>CURRENT ASSETS - UNRESTRICTED</b>       |                          |                         |                          |                          |             |           |           |
| Cash and cash equivalents                  | \$ 7,430                 | \$ -                    | \$ -                     | \$ -                     | \$ -        | \$ 7,430  | \$ 5,928  |
| Due from State Agencies                    | 6                        | -                       | -                        | -                        | -           | 6         | 9         |
| Receivables                                |                          |                         |                          |                          |             |           |           |
| Interest                                   |                          |                         |                          |                          |             |           |           |
| Loans                                      | 4                        | -                       | -                        | -                        | -           | 4         | 8         |
| Investments                                | 104                      | -                       | -                        | -                        | -           | 104       | 51        |
| Due from HUD                               | 530                      | -                       | -                        | -                        | -           | 530       | 152       |
| Other                                      | 2,016                    | -                       | -                        | -                        | (1,209)     | 807       | 546       |
| Current portion of service release premium | 763                      | -                       | -                        | -                        | -           | 763       | 621       |
| Prepaid expenses                           | 48                       | 15                      | -                        | 15                       | -           | 63        | 29        |
| Total unrestricted current assets          | 10,901                   | 15                      | -                        | 15                       | (1,209)     | 9,707     | 7,344     |
| <b>CURRENT ASSETS - RESTRICTED</b>         |                          |                         |                          |                          |             |           |           |
| Cash and cash equivalents                  | 17,379                   | 204,726                 | 9,000                    | 213,726                  | -           | 231,105   | 182,667   |
| Investments                                | 7,335                    | -                       | -                        | -                        | -           | 7,335     | -         |
| Receivables                                |                          |                         |                          |                          |             |           |           |
| Current portion of loans receivable        | 424                      | 24,200                  | 3,330                    | 27,530                   | -           | 27,954    | 23,209    |
| Interest                                   |                          |                         |                          |                          |             |           |           |
| Loans                                      | -                        | 3,800                   | 468                      | 4,268                    | -           | 4,268     | 3,449     |
| Investments                                | -                        | 200                     | 20                       | 220                      | -           | 220       | 166       |
| Other                                      | -                        | 12,358                  | 4,255                    | 16,613                   | (16,612)    | 1         | -         |
| Total restricted current assets            | 25,138                   | 245,284                 | 17,073                   | 262,357                  | (16,612)    | 270,883   | 209,491   |
| Total current assets                       | 36,039                   | 245,299                 | 17,073                   | 262,372                  | (17,821)    | 280,590   | 216,835   |
| <b>NONCURRENT ASSETS - UNRESTRICTED</b>    |                          |                         |                          |                          |             |           |           |
| Service release premium, net               | 5,321                    | -                       | -                        | -                        | -           | 5,321     | 4,260     |
| Equipment, net                             | 13                       | -                       | -                        | -                        | -           | 13        | 11        |
| Total unrestricted noncurrent assets       | 5,334                    | -                       | -                        | -                        | -           | 5,334     | 4,271     |
| <b>NONCURRENT ASSETS - RESTRICTED</b>      |                          |                         |                          |                          |             |           |           |
| Loans receivable, net of current portion   | 4,968                    | 1,040,381               | 125,069                  | 1,165,450                | -           | 1,170,418 | 943,040   |
| Investments                                | -                        | 38,233                  | 3,900                    | 42,133                   | -           | 42,133    | 19,975    |
| Total restricted noncurrent assets         | 4,968                    | 1,078,614               | 128,969                  | 1,207,583                | -           | 1,212,551 | 963,015   |
| Total noncurrent assets                    | 10,302                   | 1,078,614               | 128,969                  | 1,207,583                | -           | 1,217,885 | 967,286   |
| Total assets                               | 46,341                   | 1,323,913               | 146,042                  | 1,469,955                | (17,821)    | 1,498,475 | 1,184,121 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>      |                          |                         |                          |                          |             |           |           |
| Deferred outflow - pension                 | 1,677                    | -                       | -                        | -                        | -           | 1,677     | 1,919     |
| Deferred outflow - OPEB                    | 51                       | -                       | -                        | -                        | -           | 51        | 49        |
| Financial derivative instrument            | -                        | 7,886                   | -                        | 7,886                    | -           | 7,886     | -         |
| Total deferred outflows of resources       | 1,728                    | 7,886                   | -                        | 7,886                    | -           | 9,614     | 1,968     |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF NET POSITION - CONTINUED**  
**JUNE 30, 2019 AND 2018**  
(In Thousands)

|  | Agency Operating Funds  |                         | Homeownership Bond Funds |                         | Homeownership Bond Funds |                 | Elimination       | Total             |                   |
|--|-------------------------|-------------------------|--------------------------|-------------------------|--------------------------|-----------------|-------------------|-------------------|-------------------|
|  | 1994 General Resolution | 2009 General Resolution | 1994 General Resolution  | 2009 General Resolution | Bond Funds               | Bond Funds      |                   | 2019              | 2018              |
| <b>LIABILITIES</b>                           |                         |                         |                          |                         |                          |                 |                   |                   |                   |
| <b>CURRENT LIABILITIES</b>                   |                         |                         |                          |                         |                          |                 |                   |                   |                   |
| Due to HUD                                   | \$ 13                   | \$ -                    | \$ -                     | \$ -                    | \$ -                     | \$ -            | \$ -              | \$ 13             | \$ 13             |
| Due to State Agencies                        | 17                      | -                       | -                        | -                       | -                        | -               | -                 | 17                | 14                |
| Current portion of rebate due to IRS         | -                       | 81                      | -                        | -                       | 81                       | -               | -                 | 81                | -                 |
| Other  | 2,760                   | 2,058                   | 14,493                   | 14,493                  | 16,551                   | (17,821)        | 1,490             | 833               | 229               |
| Current portion of compensated absences      | 237                     | -                       | -                        | -                       | -                        | -               | 237               | 237               | 20,024            |
| Current portion of bonds payable             | -                       | 37,784                  | 2,046                    | 2,046                   | 39,830                   | -               | 39,830            | 16,337            | 12,650            |
| Accrued interest                             | 82                      | 14,601                  | 1,654                    | 1,654                   | 16,255                   | -               | 16,337            | 14,941            | 12,136            |
| Funds held in trust                          | 14,941                  | -                       | -                        | -                       | -                        | -               | 14,941            | 343               | 41                |
| Grant funds received in advance              | 343                     | -                       | -                        | -                       | -                        | -               | 343               | -                 | -                 |
| <b>Total current liabilities</b>             | <b>18,393</b>           | <b>54,524</b>           | <b>18,193</b>            | <b>18,193</b>           | <b>72,717</b>            | <b>(17,821)</b> | <b>73,289</b>     | <b>45,940</b>     | <b>45,940</b>     |
| <b>NONCURRENT LIABILITIES</b>                |                         |                         |                          |                         |                          |                 |                   |                   |                   |
| Compensated absences, net of current portion | 107                     | -                       | -                        | -                       | -                        | -               | -                 | 107               | 121               |
| Rebate due to IRS                            | -                       | 9                       | -                        | -                       | 9                        | -               | -                 | 9                 | 38                |
| Grant funds received in advance              | 4,463                   | -                       | -                        | -                       | -                        | -               | -                 | 4,463             | 4,369             |
| Net pension liability                        | 4,000                   | -                       | -                        | -                       | -                        | -               | -                 | 4,000             | 3,906             |
| Net OPEB liability                           | 190                     | -                       | -                        | -                       | -                        | -               | -                 | 190               | 191               |
| Financial derivative instrument              | -                       | 7,886                   | -                        | -                       | 7,886                    | -               | 7,886             | (1,239)           | (1,239)           |
| Bonds payable, net of current portion        | 9,250                   | 1,103,975               | 109,341                  | 109,341                 | 1,213,316                | -               | 1,222,566         | 948,181           | 948,181           |
| <b>Total noncurrent liabilities</b>          | <b>18,010</b>           | <b>1,111,870</b>        | <b>109,341</b>           | <b>109,341</b>          | <b>1,221,211</b>         | <b>-</b>        | <b>1,239,221</b>  | <b>955,567</b>    | <b>955,567</b>    |
| <b>Total liabilities</b>                     | <b>36,403</b>           | <b>1,166,394</b>        | <b>127,534</b>           | <b>127,534</b>          | <b>1,293,928</b>         | <b>(17,821)</b> | <b>1,312,510</b>  | <b>1,001,507</b>  | <b>1,001,507</b>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>         |                         |                         |                          |                         |                          |                 |                   |                   |                   |
| Deferred inflow - pension                    | 324                     | -                       | -                        | -                       | -                        | -               | -                 | 324               | 198               |
| Deferred inflow - OPEB                       | 11                      | -                       | -                        | -                       | -                        | -               | -                 | 11                | 14                |
| Financial derivative instrument              | -                       | -                       | -                        | -                       | -                        | -               | -                 | -                 | 1,239             |
| <b>Total deferred inflows of resources</b>   | <b>335</b>              | <b>-</b>                | <b>-</b>                 | <b>-</b>                | <b>-</b>                 | <b>-</b>        | <b>335</b>        | <b>1,451</b>      | <b>1,451</b>      |
| <b>NET POSITION</b>                          |                         |                         |                          |                         |                          |                 |                   |                   |                   |
| Invested in capital assets                   | 13                      | -                       | -                        | -                       | -                        | -               | -                 | 13                | 11                |
| Restricted for debt service                  | -                       | 165,405                 | 18,508                   | 18,508                  | 183,913                  | -               | 183,913           | 173,892           | 173,892           |
| Unrestricted                                 | 11,318                  | -                       | -                        | -                       | -                        | -               | 11,318            | 9,228             | 9,228             |
| <b>Total net position</b>                    | <b>11,331</b>           | <b>\$ 165,405</b>       | <b>\$ 18,508</b>         | <b>\$ 18,508</b>        | <b>\$ 183,913</b>        | <b>\$ -</b>     | <b>\$ 195,244</b> | <b>\$ 183,131</b> | <b>\$ 183,131</b> |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(In Thousands)

|  | Agency<br>Operating<br>Funds | Homeownership Bond Funds   |                            | Homeownership<br>Bond Funds | Total             | Elimination    | Total             |                   |
|--|------------------------------|----------------------------|----------------------------|-----------------------------|-------------------|----------------|-------------------|-------------------|
|  |                              | 1994 General<br>Resolution | 2009 General<br>Resolution |                             |                   |                | 2019              | 2018              |
| <b>OPERATING REVENUES</b>  |                              |                            |                            |                             |                   |                |                   |                   |
| Mortgage interest income   | \$ 100                       | \$ 35,821                  | \$ 4,807                   | \$ 40,628                   | \$ 40,728         | \$ -           | \$ 40,728         | \$ 33,932         |
| Investment income  | -                            | 5,151                      | 309                        | 5,460                       | 5,460             | -              | 5,460             | 2,772             |
| Gain on sale of investments  | -                            | 79                         | -                          | 79                          | 79                | -              | 79                | 182               |
| Fee income   | 9,406                        | -                          | -                          | -                           | 9,406             | (6,292)        | 3,114             | 2,954             |
| Total revenues   | <u>9,506</u>                 | <u>41,051</u>              | <u>5,116</u>               | <u>46,167</u>               | <u>55,673</u>     | <u>(6,292)</u> | <u>49,381</u>     | <u>39,840</u>     |
| <b>OPERATING EXPENSES</b>  |                              |                            |                            |                             |                   |                |                   |                   |
| Interest expense   | 22                           | 24,369                     | 2,768                      | 27,137                      | 27,159            | -              | 27,159            | 20,035            |
| Agency grants  | 231                          | -                          | -                          | -                           | 231               | -              | 231               | 242               |
| Administrative and operating expenses                                | 3,533                        | 8,329                      | 649                        | 8,978                       | 12,511            | (6,292)        | 6,219             | 5,432             |
| Salaries and benefits  | 3,570                        | -                          | -                          | -                           | 3,570             | -              | 3,570             | 3,589             |
| Pension expense  | 636                          | -                          | -                          | -                           | 636               | -              | 636               | 580               |
| OPEB expense   | 23                           | -                          | -                          | -                           | 23                | -              | 23                | 23                |
| Depreciation   | 5                            | -                          | -                          | -                           | 5                 | -              | 5                 | 4                 |
| Total expenses   | <u>8,020</u>                 | <u>32,698</u>              | <u>3,417</u>               | <u>36,115</u>               | <u>44,135</u>     | <u>(6,292)</u> | <u>37,843</u>     | <u>29,905</u>     |
| <b>OPERATING INCOME</b>  | <u>1,486</u>                 | <u>8,353</u>               | <u>1,699</u>               | <u>10,052</u>               | <u>11,538</u>     | <u>-</u>       | <u>11,538</u>     | <u>9,935</u>      |
| <b>NONOPERATING REVENUE (EXPENSES)</b>                               |                              |                            |                            |                             |                   |                |                   |                   |
| Federal grants   | 14,868                       | -                          | -                          | -                           | 14,868            | -              | 14,868            | 14,823            |
| Non-federal grants   | 2                            | -                          | -                          | -                           | 2                 | -              | 2                 | -                 |
| Investment income  | 461                          | -                          | -                          | -                           | 461               | -              | 461               | 108               |
| Federal grants   | (14,868)                     | -                          | -                          | -                           | (14,868)          | -              | (14,868)          | (14,823)          |
| Total nonoperating revenues (expenses)                               | <u>463</u>                   | <u>-</u>                   | <u>-</u>                   | <u>-</u>                    | <u>463</u>        | <u>-</u>       | <u>463</u>        | <u>108</u>        |
| <b>CHANGE IN ASSETS BEFORE TRANSFERS</b>                             | <u>1,949</u>                 | <u>8,353</u>               | <u>1,699</u>               | <u>10,052</u>               | <u>12,001</u>     | <u>-</u>       | <u>12,001</u>     | <u>10,043</u>     |
| <b>TRANSFERS</b>   |                              |                            |                            |                             |                   |                |                   |                   |
| Transfer from ND Department of Human Services                        | 150                          | -                          | -                          | -                           | 150               | -              | 150               | -                 |
| Transfer to Industrial Commission                                    | (38)                         | -                          | -                          | -                           | (38)              | -              | (38)              | (38)              |
| <b>CHANGE IN NET POSITION</b>  | <u>2,061</u>                 | <u>8,353</u>               | <u>1,699</u>               | <u>10,052</u>               | <u>12,113</u>     | <u>-</u>       | <u>12,113</u>     | <u>10,005</u>     |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b> | <u>9,239</u>                 | <u>157,076</u>             | <u>16,816</u>              | <u>173,892</u>              | <u>183,131</u>    | <u>-</u>       | <u>183,131</u>    | <u>170,373</u>    |
| <b>PRIOR PERIOD ADJUSTMENT - NOTE 23</b>                             | <u>-</u>                     | <u>-</u>                   | <u>-</u>                   | <u>-</u>                    | <u>-</u>          | <u>-</u>       | <u>-</u>          | <u>2,753</u>      |
| <b>TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED</b>               | <u>9,239</u>                 | <u>157,076</u>             | <u>16,816</u>              | <u>173,892</u>              | <u>183,131</u>    | <u>-</u>       | <u>183,131</u>    | <u>173,126</u>    |
| <b>TRANSFER IN (OUT)</b>   | <u>31</u>                    | <u>(24)</u>                | <u>(7)</u>                 | <u>(31)</u>                 | <u>-</u>          | <u>-</u>       | <u>-</u>          | <u>-</u>          |
| <b>TOTAL NET POSITION, END OF YEAR</b>                               | <u>\$ 11,331</u>             | <u>\$ 165,405</u>          | <u>\$ 18,508</u>           | <u>\$ 183,913</u>           | <u>\$ 195,244</u> | <u>\$ -</u>    | <u>\$ 195,244</u> | <u>\$ 183,131</u> |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(in Thousands)

|   | Homeownership Bond Funds     |                            |          |                            |           | Total                       |           | Total       |      |      |
|---|------------------------------|----------------------------|----------|----------------------------|-----------|-----------------------------|-----------|-------------|------|------|
|   | Agency<br>Operating<br>Funds | 1994 General<br>Resolution |          | 2009 General<br>Resolution |           | Homeownership<br>Bond Funds |           | Elimination | 2019 | 2018 |
|   |                              | \$                         | \$       | \$                         | \$        | \$                          | \$        |             |      |      |
| <b>OPERATING ACTIVITIES</b>                                     |                              |                            |          |                            |           |                             |           |             |      |      |
| Receipts from customers   | 13,449                       | 143,604                    | 24,084   | 167,688                    | 181,137   | (17,725)                    | 163,412   | 196,057     |      |      |
| Proceeds from sale of loans receivable                          | -                            | 25,110                     | -        | 25,110                     | 25,110    | -                           | 25,110    | 27,552      |      |      |
| Interfund mortgages loan purchases and sales                    | 35,245                       | (35,245)                   | -        | (35,245)                   | -         | -                           | -         | -           |      |      |
| Grant funds received in advance                                 | 396                          | -                          | -        | -                          | 396       | -                           | 396       | (2)         |      |      |
| Payment of grants   | (609)                        | -                          | -        | -                          | (609)     | -                           | (609)     | (263)       |      |      |
| Payments to service providers                                   |                              |                            |          |                            |           |                             |           |             |      |      |
| State agencies  | (155)                        | -                          | -        | -                          | (155)     | -                           | (155)     | (216)       |      |      |
| Mortgage loan purchases   | (35,569)                     | (334,154)                  | -        | (334,154)                  | (369,723) | -                           | (369,723) | (296,347)   |      |      |
| Other   | (4,936)                      | (21,676)                   | (3,334)  | (25,010)                   | (29,946)  | 17,725                      | (12,221)  | (18,026)    |      |      |
| Payments to employees   | (3,565)                      | -                          | -        | -                          | (3,565)   | -                           | (3,565)   | (3,587)     |      |      |
| Net cash provided by (used for) operating activities            | 4,256                        | (222,361)                  | 20,750   | (201,611)                  | (197,355) | -                           | (197,355) | (94,832)    |      |      |
| <b>NONCAPITAL FINANCING ACTIVITIES</b>                          |                              |                            |          |                            |           |                             |           |             |      |      |
| Principal payments on loan from BND / FHLB                      | (37,353)                     | -                          | -        | -                          | (37,353)  | -                           | (37,353)  | (32,038)    |      |      |
| Principal payments on bonds payable                             | -                            | (71,165)                   | (18,495) | (89,660)                   | (89,660)  | -                           | (89,660)  | (126,620)   |      |      |
| Proceeds from loan borrowings from BND / FHLB                   | 37,353                       | -                          | -        | -                          | 37,353    | -                           | 37,353    | 32,038      |      |      |
| Proceeds from bond issuance                                     | 9,250                        | 379,772                    | -        | 379,772                    | 389,022   | -                           | 389,022   | 316,064     |      |      |
| Interest paid on loans and bonds                                | 59                           | (20,432)                   | (3,101)  | (23,533)                   | (23,474)  | -                           | (23,474)  | (18,900)    |      |      |
| Proceeds from non-federal grants                                | 2                            | -                          | -        | -                          | 2         | -                           | 2         | -           |      |      |
| Proceeds from federal grants                                    | 14,868                       | -                          | -        | -                          | 14,868    | -                           | 14,868    | 14,823      |      |      |
| Payment of federal grants                                       | (14,868)                     | -                          | -        | -                          | (14,868)  | -                           | (14,868)  | (14,823)    |      |      |
| Transfer from Human Services                                    | 150                          | -                          | -        | -                          | 150       | -                           | 150       | -           |      |      |
| Transfers to Industrial Commission                              | (38)                         | -                          | -        | -                          | (38)      | -                           | (38)      | (38)        |      |      |
| Interfund transfer in (out)                                     | (431)                        | 431                        | -        | 431                        | -         | -                           | -         | -           |      |      |
| Net cash provided by (used for) noncapital financing activities | 8,992                        | 288,606                    | (21,596) | 267,010                    | 276,002   | -                           | 276,002   | 170,506     |      |      |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(in Thousands)

|   | Homeownership Bond Funds |                         |                         |                          | Total      | Total      |            |
|---|--------------------------|-------------------------|-------------------------|--------------------------|------------|------------|------------|
|   | Agency Operating Funds   | 1994 General Resolution | 2009 General Resolution | Homeownership Bond Funds |            | 2019       | 2018       |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>       |                          |                         |                         |                          |            |            |            |
| Purchase of equipment                                 | \$ (7)                   | \$ -                    | \$ -                    | \$ -                     | \$ (7)     | \$ (7)     | \$ -       |
| <b>INVESTING ACTIVITIES</b>                           |                          |                         |                         |                          |            |            |            |
| Purchase of investments                               | (9,675)                  | (19,565)                | (3,868)                 | (23,433)                 | (33,108)   | (33,108)   | (19,583)   |
| Proceeds from sale of investments                     | 2,826                    | 1,229                   | -                       | 1,229                    | 4,055      | 4,055      | 3,811      |
| Interest received from investments                    | 353                      | -                       | -                       | -                        | 353        | 353        | 473        |
| Net cash provided by (used for) investing activities  | (6,496)                  | (18,336)                | (3,868)                 | (22,204)                 | (28,700)   | (28,700)   | (15,299)   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>        | 6,745                    | 47,909                  | (4,714)                 | 43,195                   | 49,940     | 49,940     | 60,375     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> | 18,064                   | 156,817                 | 13,714                  | 170,531                  | 188,595    | 188,595    | 128,220    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>       | \$ 24,809                | \$ 204,726              | \$ 9,000                | \$ 213,726               | \$ 238,535 | \$ 238,535 | \$ 188,595 |
| Cash and Cash Equivalents - Unrestricted              | \$ 7,430                 | \$ -                    | \$ -                    | \$ -                     | \$ 7,430   | \$ 7,430   | \$ 5,928   |
| Cash and Cash Equivalents - Restricted                | 17,379                   | 204,726                 | 9,000                   | 213,726                  | 231,105    | 231,105    | 182,667    |
|   | \$ 24,809                | \$ 204,726              | \$ 9,000                | \$ 213,726               | \$ 238,535 | \$ 238,535 | \$ 188,595 |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(in Thousands)

|   | Homeownership Bond Funds |                         |                         | Elimination | Total                    |             |
|---|--------------------------|-------------------------|-------------------------|-------------|--------------------------|-------------|
|   | Agency Operating Funds   | 1994 General Resolution | 2009 General Resolution |             | Homeownership Bond Funds | 2019        |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> |                          |                         |                         |             |                          |             |
| Operating income (loss)   | \$ 1,486                 | \$ 8,353                | \$ 1,699                | \$ -        | \$ 11,538                | \$ 9,935    |
| Adjustments to reconcile operating income to net cash from operating activities:                  |                          |                         |                         |             |                          |             |
| Depreciation  | 5                        | -                       | -                       | -           | 5                        | 4           |
| Amortization  | -                        | (4,418)                 | (755)                   | -           | (5,173)                  | (4,694)     |
| Service release premiums  | 1,048                    | -                       | -                       | -           | 1,048                    | 919         |
| (Increase) decrease in fair value of investments  | -                        | (353)                   | (31)                    | -           | (384)                    | -           |
| Reclassification of interest expense to other activities  | 22                       | 24,331                  | 2,753                   | -           | 27,106                   | 21,442      |
| Effect on cash flows due to changes in:   |                          |                         |                         |             |                          |             |
| Deferred outflow - pension  | 242                      | -                       | -                       | -           | 242                      | (1,183)     |
| Deferred outflow - OPEB   | (2)                      | -                       | -                       | -           | (2)                      | (19)        |
| Deferred inflows - pension  | 126                      | -                       | -                       | -           | 126                      | (52)        |
| Deferred inflows - OPEB   | (3)                      | -                       | -                       | -           | (3)                      | 14          |
| Effect on cash flows due to changes in:   |                          |                         |                         |             |                          |             |
| Due from HUD  | (378)                    | -                       | -                       | -           | (378)                    | (21)        |
| Due from State Agencies   | 3                        | -                       | -                       | -           | 3                        | (7)         |
| Service release premium   | (2,251)                  | -                       | -                       | -           | (2,251)                  | (1,538)     |
| Other receivables   | 928                      | 6,510                   | 3,695                   | -           | 11,133                   | (59,177)    |
| Prepaid expenses  | (19)                     | (15)                    | -                       | -           | (34)                     | 31          |
| Loan interest receivable  | 4                        | (850)                   | 31                      | -           | (815)                    | (592)       |
| Loans receivable  | (316)                    | (247,079)               | 15,272                  | -           | (232,123)                | (120,048)   |
| Due to HUD  | (1)                      | -                       | -                       | -           | (1)                      | (1)         |
| Due to State Agencies   | 3                        | -                       | -                       | -           | 3                        | 5           |
| Rebate due to IRS   | -                        | 51                      | -                       | -           | 51                       | (64)        |
| Other liabilities   | 71                       | (8,891)                 | (1,914)                 | -           | (10,734)                 | 59,285      |
| Compensated absences  | (6)                      | -                       | -                       | -           | (6)                      | 10          |
| Funds held in trust   | 2,804                    | -                       | -                       | -           | 2,804                    | (716)       |
| Net pension liability   | 94                       | -                       | -                       | -           | 94                       | 1,637       |
| Grant funds received in advance   | 396                      | -                       | -                       | -           | 396                      | (2)         |
| Net cash provided by (used for) operating activities  | \$ 4,256                 | \$ (222,361)            | \$ 20,750               | \$ -        | \$ (197,355)             | \$ (94,832) |
| <b>Non-cash disclosures:</b>  |                          |                         |                         |             |                          |             |
| Increase (decrease) in fair value of investments  | \$ 55                    | \$ 353                  | \$ 31                   | \$ -        | \$ 439                   | \$ (388)    |
| Fair value transfers  | \$ 55                    | \$ (55)                 | -                       | \$ -        | \$ -                     | \$ -        |
| Investment transfers  | \$ (4,303)               | \$ 4,303                | -                       | \$ -        | \$ -                     | \$ -        |
| Transfers associated with pledged loans   | \$ (31)                  | \$ 24                   | \$ 7                    | \$ -        | \$ -                     | \$ -        |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2019**

| Line Item # | Description  | Lower Income Housing Assistance Program_Section 8 Program_Section 8 Program_Section 8 |                                   | Lower Income Housing Assistance Program_Section 8 Program_Section 8 Program_Section 8 |                                  | Lower Income Housing Assistance Program_Section 8 Program_Section 8 Program_Section 8 |                                  | Lower Income Housing Assistance Program_Section 8 Program_Section 8 Program_Section 8 |                                  |
|-------------|--|---|-----------------------------------|---|----------------------------------|---|----------------------------------|---|----------------------------------|
|             |  | Supplements - Rental Housing for Lower Income Families                                | Rehabilitate Moderate ND901MR0001 | Rehabilitat Moderate ND901MR0003  | Rehabilitat Moderate ND901MR0004 | Rehabilitat Moderate ND901MR0005  | Rehabilitat Moderate ND901MR0006 | Rehabilitat Moderate ND901MR0008  | Rehabilitat Moderate ND901MR0009 |
| 111         | Cash - Unrestricted  | 737,897   | 57,977                            | 24,109  | 11,504                           | 19,374  | 100,908                          | 13,724  | -                                |
| 113         | Cash - Other Restricted                                    | 1   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 115         | Cash - Restricted for payment of current liability         | -   | 1,122                             | 3,439   | -                                | 2,346   | 2,874                            | 3,027   | -                                |
| 100         | <b>Total Cash</b>  | <b>737,898</b>  | <b>59,099</b>                     | <b>27,548</b>   | <b>11,504</b>                    | <b>21,720</b>   | <b>103,782</b>                   | <b>16,751</b>   | <b>-</b>                         |
| 122         | Accounts Receivable - HUD Other Projects                   | 153,871   | -                                 | -   | 2,332                            | -   | -                                | -   | -                                |
| 125         | Accounts Receivable - Miscellaneous                        | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 126.1       | Allowance for Doubtful Accounts - Dwelling Rents           | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 126.2       | Allowance for Doubtful Accounts - Other                    | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 120         | <b>Total Receivables, net of allowances for</b>            | <b>153,871</b>  | <b>-</b>                          | <b>-</b>  | <b>2,332</b>                     | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         |
| 142         | Prepaid Expenses and Other Assets                          | 13,852  | 143                               | 88  | 64                               | 84  | 147                              | 59  | -                                |
| 150         | <b>Total Current Assets</b>                                | <b>905,621</b>  | <b>59,242</b>                     | <b>27,636</b>   | <b>13,900</b>                    | <b>21,804</b>   | <b>103,929</b>                   | <b>16,810</b>   | <b>-</b>                         |
| 160         | <b>Total Fixed Assets, Net of Accumulated Depreciation</b> | <b>-</b>  | <b>-</b>                          | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         |
| 180         | <b>Total Non-Current Assets</b>                            | <b>-</b>  | <b>-</b>                          | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         |
| 190         | <b>Total Assets</b>  | <b>905,621</b>  | <b>59,242</b>                     | <b>27,636</b>   | <b>13,900</b>                    | <b>21,804</b>   | <b>103,929</b>                   | <b>16,810</b>   | <b>-</b>                         |
| 311         | Bank Overdraft   | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 312         | Accounts Payable <= 90 Days                                | 2,503   | 92                                | 57  | 41                               | 54  | 94                               | 38  | -                                |
| 331         | Accounts Payable - HUD PHA Programs                        | 1   | 1,122                             | 3,439   | -                                | 2,346   | 2,874                            | 3,027   | -                                |
| 310         | <b>Total Current Liabilities</b>                           | <b>2,504</b>  | <b>1,214</b>                      | <b>3,496</b>  | <b>41</b>                        | <b>2,400</b>  | <b>2,968</b>                     | <b>3,065</b>  | <b>-</b>                         |
| 350         | <b>Total Noncurrent Liabilities</b>                        | <b>-</b>  | <b>-</b>                          | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         | <b>-</b>  | <b>-</b>                         |
| 300         | <b>Total Liabilities</b>                                   | <b>2,504</b>  | <b>1,214</b>                      | <b>3,496</b>  | <b>41</b>                        | <b>2,400</b>  | <b>2,968</b>                     | <b>3,065</b>  | <b>-</b>                         |
| 508         | Total Contributed Capital                                  | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 508.4       | Net Investment in Capital Assets                           | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 509.2       | Fund Balance Reserved                                      | -   | -                                 | -   | -                                | -   | -                                | -   | -                                |
| 511.4       | Restricted Net Position                                    | 1   | 1,122                             | 3,439   | -                                | 2,346   | 2,874                            | 3,027   | -                                |
| 512.4       | Unrestricted Net Position                                  | 903,116   | 56,906                            | 20,701  | 13,659                           | 17,058  | 98,087                           | 10,718  | -                                |
| 513         | <b>Total Equity/Net Assets</b>                             | <b>903,117</b>  | <b>58,028</b>                     | <b>24,140</b>   | <b>13,659</b>                    | <b>19,404</b>   | <b>100,961</b>                   | <b>13,745</b>   | <b>-</b>                         |
| 600         | <b>Total Liabilities and Equity/Net Assets</b>             | <b>905,621</b>  | <b>59,242</b>                     | <b>27,636</b>   | <b>13,900</b>                    | <b>21,804</b>   | <b>103,929</b>                   | <b>16,810</b>   | <b>-</b>                         |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**HOUSING AND URBAN DEVELOPMENT -**  
**SECTION 8 FINANCIAL DATA SCHEDULE - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2019**

| Line #                          | Description  | Lower Income   |                | Lower Income  |                | Lower Income   |               | Lower Income |          | Lower Income |          | Lower Income |          |
|---------------------------------|--|----------------|----------------|---------------|----------------|----------------|---------------|--------------|----------|--------------|----------|--------------|----------|
|                                 |  | Rehabilitate   | Moderate       | Rehabilitate  | Moderate       | Rehabilitate   | Moderate      | Rehabilitate | Moderate | Rehabilitate | Moderate | Rehabilitate | Moderate |
| 70500                           | Total Tenant Revenue   | -              | -              | -             | -              | -              | -             | -            | -        | -            | -        | -            | -        |
| 70600                           | HUD PHA Operating Grants   | 157,321        | 42,320         | 61,024        | 94,258         | 102,660        | 61,154        | -            | -        | -            | -        | -            | -        |
| 71100                           | Investment Income - Unrestricted   | 95             | 59             | 43            | 56             | 98             | 39            | -            | -        | -            | -        | -            | -        |
| 72000                           | Investment Income - Restricted   | 8              | 5              | 3             | 5              | 8              | 3             | -            | -        | -            | -        | -            | -        |
| <b>700</b>                      | <b>Total Revenue</b>   | <b>157,424</b> | <b>42,384</b>  | <b>61,070</b> | <b>94,319</b>  | <b>102,766</b> | <b>61,196</b> | -            | -        | -            | -        | -            | -        |
| <b>Expenses</b>                 |  |                |                |               |                |                |               |              |          |              |          |              |          |
| 91100                           | Administrative Salaries  | 11,865         | 7,364          | 5,318         | 6,955          | 12,274         | 4,910         | -            | -        | -            | -        | -            | -        |
| 91200                           | Auditing Fees  | 265            | 158            | 114           | 150            | 264            | 106           | -            | -        | -            | -        | -            | -        |
| 91500                           | Employee Benefit Contribution - Administrative   | 5,562          | 3,453          | 2,493         | 3,261          | 5,754          | 2,302         | -            | -        | -            | -        | -            | -        |
| 91600                           | Office Expense   | 2,424          | 1,504          | 1,086         | 1,421          | 2,507          | 1,003         | -            | -        | -            | -        | -            | -        |
| 91800                           | Travel   | 51             | 32             | 23            | 29             | 53             | 21            | -            | -        | -            | -        | -            | -        |
| 91900                           | Other  | 7,881          | 4,890          | 3,533         | 4,620          | 8,152          | 3,261         | -            | -        | -            | -        | -            | -        |
| <b>96900</b>                    | <b>Total Operating Expenses</b>  | <b>28,038</b>  | <b>17,401</b>  | <b>12,567</b> | <b>16,436</b>  | <b>29,004</b>  | <b>11,603</b> | -            | -        | -            | -        | -            | -        |
| <b>97000</b>                    | <b>Excess Operating Revenue over Operating Expenses</b>                                | <b>129,386</b> | <b>24,983</b>  | <b>48,503</b> | <b>77,883</b>  | <b>73,762</b>  | <b>49,593</b> | -            | -        | -            | -        | -            | -        |
| 97300                           | Housing Assistance Payments  | 131,313        | 26,178         | 49,365        | 79,012         | 75,755         | 50,392        | -            | -        | -            | -        | -            | -        |
| <b>90000</b>                    | <b>Total Expenses</b>  | <b>159,351</b> | <b>43,579</b>  | <b>61,932</b> | <b>95,448</b>  | <b>104,759</b> | <b>61,995</b> | -            | -        | -            | -        | -            | -        |
| 10100                           | Total Other Financing Sources (Uses)   | -              | -              | -             | -              | -              | -             | -            | -        | -            | -        | -            | -        |
| <b>10000</b>                    | <b>Excess (Deficiency) of Operating Revenue Over (Under) Expenses</b>                  | <b>(1,927)</b> | <b>(1,195)</b> | <b>(862)</b>  | <b>(1,129)</b> | <b>(1,993)</b> | <b>(799)</b>  | -            | -        | -            | -        | -            | -        |
| <b>Memo Account Information</b> |  |                |                |               |                |                |               |              |          |              |          |              |          |
| 11020                           | Debt Principal Payments - Enterprise Funds   | -              | -              | -             | -              | -              | -             | -            | -        | -            | -        | -            | -        |
| 11030                           | Beginning Equity   | 59,955         | 25,337         | 14,722        | 20,533         | 102,954        | 14,544        | -            | -        | -            | -        | -            | -        |
| 11040                           | Prior Period Adjustments, Equity Transfers and Correction of Errors                    | -              | (2)            | (1)           | -              | -              | -             | -            | -        | -            | -        | -            | -        |
| 11130                           | Maximum Annual Contributions Commitment (per ACC)                                      | 210,545        | 63,740         | 80,899        | 115,419        | 132,635        | 48,900        | -            | -        | -            | -        | -            | -        |
| 11140                           | Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months | -              | -              | -             | -              | -              | -             | -            | -        | -            | -        | -            | -        |
| 11150                           | Contingency Reserve, ACC Program Reserve   | 17,041         | 20,263         | 15,882        | 4,069          | 84,041         | 12,320        | -            | -        | -            | -        | -            | -        |
| <b>11160</b>                    | <b>Total Annual Contributions Available</b>  | <b>227,586</b> | <b>84,003</b>  | <b>96,781</b> | <b>119,488</b> | <b>216,676</b> | <b>61,220</b> | -            | -        | -            | -        | -            | -        |
| 11200                           | Unit Months Available  | 348            | 216            | 156           | 204            | 360            | 144           | -            | -        | -            | -        | -            | -        |
| 11210                           | Number of Unit Months Leased   | 315            | 111            | 112           | 183            | 274            | 140           | -            | -        | -            | -        | -            | -        |



**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**ADJUSTED NET WORTH CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(In Thousands)

**A. Adjusted net worth calculation**

|  |                   |
|--|-------------------|
| Stockholder's equity per statement of financial condition at end of reporting period | <u>\$ 195,244</u> |
|--|-------------------|

Less:

Itemized unacceptable assets

|                            |               |
|----------------------------|---------------|
| 1. Due from state agencies | <u>\$ (6)</u> |
|----------------------------|---------------|

|    |             |
|----|-------------|
| 2. | <u>\$ -</u> |
|----|-------------|

|    |             |
|----|-------------|
| 3. | <u>\$ -</u> |
|----|-------------|

|                           |               |
|---------------------------|---------------|
| Total unacceptable assets | <u>\$ (6)</u> |
|---------------------------|---------------|

|                    |                          |
|--------------------|--------------------------|
| Adjusted net worth | <u><u>\$ 195,238</u></u> |
|--------------------|--------------------------|

**B. Required net worth calculation**

|  |                   |
|--|-------------------|
| Unpaid principal balance of securities outstanding<br>(Note: number of pools = 31) | <u>\$ 183,188</u> |
|--|-------------------|

Plus:

|  |                  |
|--|------------------|
| Outstanding balance of commitment authority issued and requested | <u>\$ 52,448</u> |
|--|------------------|

|   |                   |
|---|-------------------|
| Total outstanding portfolio and authority | <u>\$ 235,636</u> |
|---|-------------------|

|                    |                        |
|--------------------|------------------------|
| Required net worth | <u><u>\$ 1,535</u></u> |
|--------------------|------------------------|

**C. Excess (deficit) net worth**

|   |                          |
|---|--------------------------|
| (Adjusted net worth - required net worth) | <u><u>\$ 193,703</u></u> |
|---|--------------------------|

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**INSURANCE COVERAGE SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(In Thousands)

A. Identification of affiliated Ginnie Mae issuers

|  |      |
|--|------|
| Affiliated Ginnie Mae issuers<br>(Issuer name and Ginnie Mae issuer identification code) | None |
|--|------|

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

B. Required insurance calculation

|                      |            |
|----------------------|------------|
| Servicing portfolio  |            |
| Ginnie Mae           | \$ 183,188 |
| Fannie Mae           | -          |
| Freddie Mac          | -          |
| Conventional (other) | 991,593    |

|                           |           |
|---------------------------|-----------|
| Total servicing portfolio | 1,174,781 |
|---------------------------|-----------|

|                                 |       |
|---------------------------------|-------|
| Required fidelity bond coverage | 1,700 |
|---------------------------------|-------|

|   |       |
|---|-------|
| Required mortgage servicing errors and omissions coverage | 1,700 |
|---|-------|

C. Verification of insurance coverage

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

|  |       |
|--|-------|
| Mortgage servicing errors and omissions coverage at end<br>of reporting period | 2,000 |
|--|-------|

D. Excess (deficit) insurance coverage

|                        |     |
|------------------------|-----|
| Fidelity bond coverage | 300 |
|------------------------|-----|

|  |     |
|--|-----|
| Required servicing errors and omissions coverage | 300 |
|--|-----|

E. Ginnie Mae loss payable endorsement

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

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

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**CAPITAL REQUIREMENT CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(In Thousands)

**A. Capital requirement for depository institutions**

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

**B. Capital requirement for nodepository institutions**

|   |                     |              |
|---|---------------------|--------------|
| Total adjusted net worth                | \$ 195,238          |              |
| Total assets                            | <u>\$ 1,498,475</u> |              |
|   |                     | <u>Meets</u> |
| <br>                                    |                     |              |
| Total adjusted net worth / total assets | <u>13.03%</u>       | <u>yes</u>   |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**LIQUID ASSET REQUIREMENT CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(In Thousands)

A. Liquid asset calculation

|   |  |          |
|---|--|----------|
| Required net worth (from adjusted net worth calculation, page 67) |  | \$ 1,535 |
|---|--|----------|

Acceptable liquid assets

|                              |  |            |
|------------------------------|--|------------|
| 1. Cash and cash equivalents |  | \$ 238,535 |
|------------------------------|--|------------|

|                     |  |            |
|---------------------|--|------------|
| Total liquid assets |  | \$ 238,535 |
|---------------------|--|------------|

B. Required liquid asset

|   |        |                           |
|---|--------|---------------------------|
|   |        | <u>Meets Requirement?</u> |
| Excess (deficit) liquid<br>(Total liquid assets / required net worth) | 15540% | yes                       |

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

| <u>Federal Grantor/Federal Agency</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-<br/>Through<br/>Identifier</u> | <u>Passed<br/>Through to<br/>Subrecipients</u> | <u>Expenditures</u>   |
|--|------------------------------------|---|--|-----------------------|
| <u>Department of Housing and Urban Development</u>   |                                    |   |  |                       |
| Federal Housing Commission Division  |                                    |   |  |                       |
| Mortgage Insurance - Homes   | 14.117                             |   | \$ -   | \$ 145,144,560        |
| Rent Supplements - Rental Housing for<br>Lower Income Families   | 14.149                             |   | -  | 12,430,122            |
| Housing Counseling Assistance Program  | 14.169                             |   | 59,299   | 59,299                |
| Housing Trust Fund   | 14.275                             |   | -  | 2,731,263             |
| Lower Income Housing Assistance Program -<br>Section 8 Moderate Rehabilitation /<br>Section 8 Project-Based Cluster  | 14.856                             | A                                       | -  | 527,064               |
| Community Development Block Grants   | 14.228                             |   |  | 337,660               |
| Passed through City of Minot:<br>Community Development Block Grant -<br>National Disaster Resilience Competition /<br>CDBG-Disaster Recover Grants Cluster | 14.269                             | B                                       | B-13-<br>MS-38-002                             | -<br>10,504           |
| Total Department of Housing and Urban Development  |                                    |   | <u>59,299</u>                                  | <u>161,240,473</u>    |
| <u>Department of Veterans Affairs</u>  |                                    |   |  |                       |
| Veterans Benefits Administration Division  |                                    |   |  |                       |
| Veterans Housing -<br>Guaranteed and Insured Loans   | 64.114                             |   | -  | 14,661,491            |
| TOTAL  |                                    |   | <u>\$ 59,299</u>                               | <u>\$ 175,901,963</u> |

See Notes to the Schedule of Expenditures of Federal Awards

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**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, 2019. 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, 2019.

| <u>Federal Program</u>                          | <u>Federal<br/>CFDA<br/>Number</u> | <u>6/30/19<br/>Balance</u> |
|---|------------------------------------|----------------------------|
| Mortgage Insurance - Homes                      | 14.117                             | \$ 676,558,258             |
| Veterans Housing - Guaranteed and Insured Loans | 64.114                             | 60,372,997                 |

**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, 2019, and the related notes to the financial statements, which collectively comprise the North Dakota Housing Finance Agency's basic financial statements, and have issued our report thereon dated October 14, 2019.

## **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 14, 2019



## 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, 2019. 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, 2019.

## **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 14, 2019

**NORTH DAKOTA HOUSING FINANCE AGENCY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**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                |

|  |                                   |
|--|-----------------------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>      \$922,722      </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.

## 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 23 to the financial statements, North Dakota Housing Finance Agency changed accounting principles related to their method of accounting for bond premiums and discounts.

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 14, 2019

October 14, 2019

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, 2019. 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 June 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Housing Finance Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019, with the exception of accounting for bond premiums and discounts, as described in note 23 to the financial statements. 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 14, 2019.

#### *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**