

**National Homebuyers
Fund Inc. (NHF)
Board of Directors Meeting**



**May 22, 2019
10:45 A.M.**

**1215 K Street, Suite 1650
Sacramento, CA 95814**



Board of Directors Meeting
Wednesday, May 22, 2019 – 10:45 a.m.
1215 K Street, Suite 1650
Sacramento, CA 95814

Agenda

NHF Board of Directors:

Supervisor Kevin Cann, Mariposa County
Supervisor Bob Williams, Tehama County
Supervisor Matt Kingsley, Inyo County
Supervisor Daron McDaniel, Merced County
Supervisor Les Baugh, Shasta County

1. Call to Order & Determination of Quorum

Chair, Supervisor Kevin Cann, Mariposa County
Vice Chair, Supervisor Bob Williams, Tehama County

2. Approval of Minutes – May 2, 2019 Board Meeting

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(Board Members absent from the meeting will be recorded as abstained unless the Board Member indicates otherwise.)

3. Public Testimony

At this time any member of the public may address the Board. Speakers are asked to state their name for the record. Comments are usually limited to no more than 3 minutes per speaker.

4. Approval of the 2018 NHF Audited Financial Statements - ACTION

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Lisa McCargar, Chief Financial Officer

5. NHF Quarterly Reports (Discussion and possible action relative to)

Lisa McCargar

a. NHF Budget Report (March 31, 2019)

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b. NHF Investment Report (March 31, 2019)

Page 37

c. NHF Liquidity Report (March 31, 2019)

6. Adjournment

Meeting facilities are accessible to persons with disabilities. By request, alternative agenda document formats are available to persons with disabilities. To arrange an alternative agenda document format or to arrange aid or services to modify or accommodate persons with a disability to participate in a public meeting, contact Sarah Bolnik by calling 916-447-4806 at least 48 hours prior to the scheduled meeting.

Agenda items will be taken as close as possible to the schedule indicated. Any member of the general public may comment on agenda items at the time of discussion. In order to facilitate public comment, please let staff know if you would like to speak on a specific agenda item. The agenda for this meeting of the Board of Directors of National Homebuyer's Fund was duly posted at its offices, 1215 K Street, Suite 1650 Street, Sacramento, CA 72 hours prior to the meeting.



**Board of Directors Meeting
Thursday, May 2, 2019, 7:45 a.m.
The Oasis at Death Valley
The Gold Rush Room
Highway 190, Death Valley, CA 92328**

MINUTES

Call to Order, Determination of Quorum

Chair, Supervisor Kevin Cann, Mariposa County, called to order the meeting of National Homebuyers Fund, Inc. (NHF) at 7:46 a.m. A quorum was determined at that time. Those present:

Directors Present

Chair, Supervisor Kevin Cann, Mariposa County
Vice Chair, Supervisor Bob Williams, Tehama County
Supervisor Matt Kingsley, Inyo County
Supervisor Daron McDaniel, Merced County
Supervisor Les Baugh, Shasta County

Directors Absent

None

Others in Attendance

Greg Norton, RCRC President & CEO
Craig Ferguson, Vice President
Lisa McCargar, Chief Financial Officer
Arthur Wylene, RCRC General Council

Approval of Minutes of the February 20, 2019 Board Meeting

Supervisor Les Baugh, Shasta County, motioned to approve the minutes of the February 20, 2019 NHF Board of Directors Meeting. Supervisor Bob Williams, Tehama County, seconded the motion. Motion unanimously approved.

Public Testimony

None

NHF Program Investment

Craig Ferguson, Vice President, reviewed the NHF down payment assistance program investment opportunity with the Board of Directors.

Recommendations:

It is recommended that the NHF Board of Directors approve a commitment of up to \$10 MM of existing resources to provide down payment assistance in the form of second mortgage loans in conjunction with the existing DPA program/s.

Supervisor Les Baugh, Shasta County, motioned to approve the recommendations above. Supervisor Daron McDaniel, Merced County, seconded the motion. Motion unanimously passed.

Adjournment

Chair, Supervisor Kevin Cann, Mariposa County adjourned the NHF Board of Directors Meeting at 8:03 a.m.



National Homebuyers Fund, Inc.
1215 K Street, Suite 1650 · Sacramento, California 95814
Phone: (866) 643-4968 · Fax: (916) 444-3551 · www.nhfloan.org

To: NHF Board of Directors
From: Lisa McCargar, Chief Financial Officer
Date: May 14, 2019
Re: Approval of the 2018 NHF Audited Financial Statements – **ACTION**

Summary

Attached are the National Homebuyers Fund Inc. (NHF) financial statements as of and for the year ended December 31, 2018, audited by Moss Adams LLP. The financial statements contain an unmodified ("clean") audit opinion. The auditors also issued a communication letter to Those Charged with Governance as required by U.S. audit standards. In summary, the communication states that there were no significant matters identified in the course of the audit and no audit adjustments were proposed or made to the original trial balance prepared by management.

The financial statements and communication letter to Those Charged with Governance provide information useful to Board members in exercising their fiduciary responsibility. Moss Adams will be present to address the audit and audit approach as well as answer any questions.

Recommendation

It is recommended that the NHF Board of Directors review, approve, and adopt the 2018 audited financial statements and communications letter as presented.

Attachments

- NHF 2018 Audited Financial Statements
- Communications to Those Charged With Governance



*Report of Independent Auditors and
Financial Statements*

National Homebuyers Fund, Inc.

December 31, 2018



MOSSADAMS

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National Homebuyers Fund, Inc.

Management's Discussion and Analysis

December 31, 2018

This section presents management's discussion and analysis of National Homebuyers Fund, Inc.'s (NHF) financial performance for the year ended December 31, 2018. Please read it in conjunction with the financial statements and notes thereto, which follow this section.

FINANCIAL HIGHLIGHTS

The assets of NHF exceeded its liabilities at December 31, 2018, by \$81.2 million (net position). All of the net position is available to meet ongoing obligations. NHF's total net position increased by \$1.5 million (1.8%) from December 31, 2017 to December 31, 2018.

Housing programs offered in multiple states via lending institutions, interest on outstanding second mortgages, and program management services generated revenues of \$18.3 million for the year ended December 31, 2018. As of December 31, 2018, assets include \$75.8 million in unrestricted cash and cash equivalents and approximately \$4.4 million in second mortgage loans, net of an allowance for loan losses. It is important to note that the second mortgage loans are interest bearing; however, they are not securitized and are therefore subject to risk of default.

OVERVIEW OF THE FINANCIAL STATEMENTS

NHF's basic financial statements include the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to basic financial statements, which explain in more detail some of the information in the financial statements.

NHF's financial statements report information about NHF using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statement of net position includes all of NHF's operating assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to NHF's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities.

All of the revenues and expenses for 2018 are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of NHF's operations over the year and can be used to determine whether NHF has successfully recovered all of its costs through the services it provides.

The statement of cash flows provides information about NHF's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, noncapital financing, and financing activities.

The notes to basic financial statements provide additional information that is essential to a full understanding of NHF's financial statements.

National Homebuyers Fund, Inc.
Management's Discussion and Analysis
December 31, 2018

FINANCIAL ANALYSIS

Condensed Statement of Net Position
December 31, 2018 and 2017

			Increase (Decrease)	
	2018	2017	\$	%
Assets				
Current and other assets	\$ 114,012,167	\$ 137,396,681	\$ (23,384,514)	(17.0)%
Liabilities				
Current and other liabilities	32,830,834	57,682,995	(24,852,161)	(43.1)%
Net position				
Net position, unrestricted	\$ 81,181,333	\$ 79,713,686	\$ 1,467,647	1.8%

The condensed statement of net position reflects a snapshot of NHF's financial position at a given moment in time. Changes in net position over time are an indicator of whether the financial condition of NHF is improving or declining. As of December 31, 2018, NHF's net position was \$81,181,333, an increase of \$1,467,647 (1.8%) from December 31, 2017. The increase was primarily a result of positive net performance from NHF's down payment assistance (DPA) program, program management fee revenue and interest income. Despite a reduction in the housing program's volume, overall, net revenue and expense activity increased NHF's cash position.

Total assets and total liabilities experienced a decline. The decrease in assets of \$23,384,514 (17.0%) and the decrease in current and other liabilities of \$24,852,161 (43.1%) were directly correlated to the decrease in receivables and payables associated with the estimated proceeds and obligations of mortgage backed securities to be settled at a future date. The decline of the receivables and payables corresponds to the decline in housing DPA revenue and expenses decreasing lender volume as well as general market conditions.

National Homebuyers Fund, Inc.
Management's Discussion and Analysis
December 31, 2018

Condensed Statement of Revenues, Expenses, and Changes In Net Position
December 31, 2018 and 2017

	2018	2017	Increase (Decrease)	
			\$	%
Operating revenues				
Housing program revenue	\$ 16,093,047	\$ 38,142,902	\$ (22,049,855)	(57.8)%
Program management fee revenue	1,780,954	5,019,571	(3,238,617)	(64.5)%
Second mortgage interest	417,218	549,839	(132,621)	(24.1)%
Total operating revenues	18,291,219	43,712,312	(25,421,093)	(58.2)%
Operating expenses				
Housing program expenses	13,735,059	28,680,309	(14,945,250)	(52.1)%
Other operating expenses	4,051,059	7,233,028	(3,181,969)	(44.0)%
Total operating expenses	17,786,118	35,913,337	(18,127,219)	(50.5)%
Operating income	505,101	7,798,975	(7,293,874)	(93.5)%
Nonoperating revenue	962,546	464,600	497,946	107.2%
Change in net position	1,467,647	8,263,575	(6,795,928)	(82.2)%
Net position, beginning of year	79,713,686	71,450,111	8,263,575	11.6%
Net position, end of year	\$ 81,181,333	\$ 79,713,686	\$ 1,467,647	1.8%

The condensed statement of revenues, expenses, and changes in net position reflects activity that has occurred during the period of time covered by this report. For the year ended December 31, 2018, NHF's operating revenues decreased by \$25,421,093 (58.2%) from the year ended December 31, 2017, primarily due to the reduction of the DPA programs. Housing programs, which provide financing options for low to moderate income homebuyers, experienced a continued decline in revenue of \$22,049,855 (57.8%) following revised contracts with several lending partners in 2017. Revenue from existing commitments continued into early 2018. Second mortgage interest income also declined, down \$132,621 (24.1%). NHF expects second mortgage interest income to decline each year as principal balances on second mortgages are paid off and the base on which interest is calculated declines. Program management fee revenue declined in the current year as well, down \$3,238,617 (64.5%). The decrease in fee revenue resulted from the decline in the energy program managed by NHF. Housing program expenses decreased by \$14,945,250 (52.1%), corresponding directly to housing program revenue and activity for the same period. This was the primary cause for the decline in total operating expenses of \$18,127,219 (50.5%).

National Homebuyers Fund, Inc.
Management's Discussion and Analysis
December 31, 2018

BUDGETARY COMPARISON

Comparison of Budget and Actual Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2018

	Budget	Actual	Actual Over (Under) Budget	
			\$	%
Operating revenues				
Housing program revenue	\$ 12,000,000	\$ 16,093,047	\$ 4,093,047	34.1%
Program management fee revenue	3,410,000	1,780,954	(1,629,046)	(47.8)%
Second mortgage interest	470,000	417,218	(52,782)	(11.2)%
Total operating revenues	15,880,000	18,291,219	2,411,219	15.2%
Operating expenses				
Housing program expenses	10,110,000	13,735,059	3,625,059	35.9%
Other operating expenses	5,597,100	4,051,059	(1,546,041)	(27.6)%
Total operating expenses	15,707,100	17,786,118	2,079,018	13.2%
Operating income	172,900	505,101	332,201	192.1%
Nonoperating income	640,000	962,546	322,546	50.4%
Change in net position	\$ 812,900	\$ 1,467,647	\$ 654,747	80.5%

Actual program revenue exceeded the budget by \$4,093,047 (34.1%). Program management fee revenue was below the budget by \$1,629,046 (47.8%), reflecting a decrease in the number of transactions on managed programs. NHF's total operating expenses exceeded budget by \$2,079,018, an increase of 13.2% primarily due to costs associated with the DPA program which are directly related to activities generating NHF's housing program revenues. NHF's change in net position of \$1,467,647 exceeded the budget by \$654,747, an increase of 80.5%.

National Homebuyers Fund, Inc.
Management's Discussion and Analysis
December 31, 2018

FUTURE ECONOMIC OUTLOOK

NHF's 2019 board-approved budget includes continued revenue from second mortgage loan interest and DPA programs. NHF's budgeted outlook anticipates the most significant growth to come from DPA program increased lender participation. The impact, however, of Mortgagee Letters 19-06 and 19-07 issued by the U.S. Department of Housing and Urban Development remains unknown (see Note 7 – Commitments, Contingencies, and Subsequent Events).

Following 2018 activity, NHF had approximately \$75.8 million in unrestricted cash available for future operations and programs. NHF also holds approximately \$4.7 million in gross second mortgage loans in its portfolio. NHF anticipates that additional investment in and development of housing programs and management services will continue to diversify revenues and provide resources for the future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of NHF's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 1215 K Street, Suite 1650, Sacramento, CA, 95814.



Report of Independent Auditors

The Board of Directors
National Homebuyers Fund, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of National Homebuyers Fund, Inc. (NHF) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise NHF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHF'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 NHF as of December 31, 2018, and the changes in its net financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 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 which 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2019 on our consideration of NHF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHF's internal control over financial reporting and compliance.

Moss Adams LLP

Sacramento, California
May 3, 2019

Basic Financial Statements

National Homebuyers Fund, Inc.
Statement of Net Position
December 31, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 75,792,463
Restricted cash (Note 2)	338,906
Accounts receivable, proceeds from sale of securities	32,634,297
Accounts receivable	17,986
Accounts receivable from affiliated entities	707,186
Interest receivable	77,340
Prepaid expenses and other current assets	27,286
Total current assets	<u>109,595,464</u>

Noncurrent assets

Second mortgage loans receivable, net of allowance for loan losses of \$250,000	<u>4,416,703</u>
Total assets	<u>\$ 114,012,167</u>

LIABILITIES AND NET POSITION

Current liabilities

Accounts payable, securities to be purchased, at fair value	\$ 32,711,641
Accounts payable	102,363
Accounts payable to affiliated entities	<u>16,830</u>
Total current liabilities	<u>32,830,834</u>

Net position, unrestricted

	<u>81,181,333</u>
Total liabilities and net position	<u>\$ 114,012,167</u>

The accompanying notes are an integral part of these financial statements.

National Homebuyers Fund, Inc.
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2018

Operating revenues	
Housing program revenue	\$ 16,093,047
Program management fee revenue	1,780,954
Second mortgage interest	417,218
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Total operating revenues	18,291,219
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Operating expenses	
Accounting and auditing	20,497
Business development and expansion	28,527
Consultants	246,229
Contribution to affiliate	1,000,000
County MCC fees	6,400
Housing program expenses	13,735,059
Insurance	38,343
Legal fees	151,018
Promotions	5,000
Reversal of provision for loan losses	(6,197)
Rent	109,590
Sponsorships	320,000
Support services	2,114,000
Miscellaneous	17,652
	<hr/>
Total operating expenses	17,786,118
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Operating income	505,101
	<hr/>
Nonoperating revenues (expenses)	
Interest income	1,153,478
Loss on investments	(190,932)
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Total nonoperating revenues	962,546
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Change in net position	1,467,647
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Net position, beginning of year	79,713,686
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Net position, end of year	\$ 81,181,333
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The accompanying notes are an integral part of these financial statements.

National Homebuyers Fund, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities

Cash receipts from housing programs	\$ 18,225,218
Cash receipts from program management fees	1,780,954
Cash paid for support services	(2,114,000)
Cash paid for services and supplies	(15,942,124)
Net cash from operating activities	<u>1,950,048</u>

Cash flows from investing activities

Interest received and loss on investments	<u>933,951</u>
Increase in cash and cash equivalents	2,883,999
Cash and cash equivalents, beginning of year	<u>73,247,370</u>
Cash and cash equivalents, end of year	<u>\$ 76,131,369</u>

Reconciliation of operating income to net cash from operating activities

Operating income	\$ 505,101
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Adjustment to reconcile operating income to net cash from operating activities:

Reversal of provision for loan losses	(6,197)
Change in assets and liabilities	
Accounts receivable, proceeds from sale of securities net of accounts payable and securities sold, at fair value	337,184
Accounts receivable	5,913
Accounts receivable from affiliated entities	(142,512)
Second mortgage loans receivable	1,371,856
Prepaid expenses and other current assets	312
Accounts payable to affiliated entities	6,315
Accounts payable	<u>(127,924)</u>
Net cash from operating activities	<u>\$ 1,950,048</u>

The accompanying notes are an integral part of these financial statements.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity – National Homebuyers Fund, Inc. (NHF), was incorporated in August 2002. NHF is a nonprofit public benefit corporation organized exclusively for the purpose of assisting in the provision of adequate, safe, and sanitary residential housing, for any other public purposes related hereto, and is organized within the meaning of Section 115(1) of the Internal Revenue Code. Accordingly, NHF is considered a governmental unit for financial reporting purposes. NHF is governed by a five-member Board of Directors.

NHF makes available competitively priced financing opportunities to homebuyers for the purchase of residential housing, with particular emphasis on assisting low and moderate income homebuyers. NHF works in cooperation with regional lenders to provide mortgage loan financing and DPA to families and individuals who otherwise may not be able to afford to purchase a home. NHF also provides program management services for a government entity.

NHF contracts with the Rural County Representatives of California (RCRC), a California nonprofit mutual benefit corporation, for various administrative and support services. RCRC was organized to serve and strengthen county and local governments through definition, study, and action relative to problems affecting the member counties and their resources to include but not be limited to those of social, economic, environmental, and ecological importance.

Basis of accounting – NHF is accounted for as an enterprise fund and its financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

NHF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with NHF's principal ongoing operations. The principal operating revenues of NHF are from its DPA housing programs and program management services. Interest income earned on second mortgage loans and mortgage-backed securities is also reported as operating income. Operating expenses of NHF include the cost of providing the services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expense.

Accounting standards – The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of NHF's accounting policies are described below.

Cash and cash equivalents – NHF considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents, including investments in CalTRUST.

NHF's investment policy authorizes the investment of idle or surplus funds in U.S. Treasury obligations, U.S. government agencies, bankers' acceptances, commercial paper, negotiable CDs, medium-term notes, repurchase agreements, time certificates of deposit, and CalTRUST.

Second mortgage loans – Second mortgage loans receivable represent future principal payments on outstanding second mortgage loans. As of December 31, 2018, \$4,666,703 in second mortgage loans remain outstanding.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

Allowance for loan losses – NHF maintains an allowance for loan losses at a level considered adequate to provide for probable losses on existing second mortgages receivable. The allowance for loan losses is based on estimates and actual losses may vary from current estimates.

Housing program revenue – Housing program revenue consists of income earned on NHF's DPA program, including gains and losses on the sale of mortgage-backed securities. As part of the DPA program, NHF purchases pools of government backed mortgage-backed securities (MBS) for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBSs into the secondary market, NHF enters into sales agreements of "to-be-announced" (TBA) Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) and/or Federal Home Loan Mortgage Corporation (FHLMC) securities, in which NHF has committed to deliver securities at contracted prices at a future date. Realized and unrealized gains and losses on mortgage backed securities is reported in housing program revenue, as the activity relates solely to the DPA program.

Fair value measurements – NHF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in CalTRUST of \$40.5 million are valued at net asset value and therefore excluded from the fair value hierarchy.

NHF has the following recurring fair value measurements as of December 31, 2018:

- Money market funds (Level 2 inputs)
- Accounts payable, securities to be purchased, are valued using quoted market prices (Level 1)

Net position – Net position is classified into the following categories:

- *Invested in capital assets*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets; NHF does not have any net position in this category as of December 31, 2018.
- *Restricted – nonexpendable*: Net position subject to externally imposed conditions that NHF retains in perpetuity; NHF does not have any net position in this category as of December 31, 2018.
- *Restricted – expendable*: Net position subject to externally imposed conditions that can be fulfilled by the actions of NHF or by the passage of time; NHF does not have any net position in this category as of December 31, 2018.
- *Unrestricted*: All other categories of net position; in addition, unrestricted net position may be designated for use by management or the Board of Directors.

NHF has adopted a policy of generally utilizing restricted – expendable funds prior to unrestricted funds when an expenditure is incurred for purposes for which both are available.

Income taxes – NHF is a tax-exempt corporation under Section 115(1) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. NHF is not required to file federal or state income tax returns.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

A summary of NHF's cash and cash equivalents as of December 31, 2018, is as follows:

Deposits with financial institutions	\$ 2,528,342
Collateral accounts	32,782,485
Collateral accounts (restricted)	338,906
CalTRUST	<u>40,481,636</u>
Total cash and cash equivalents, including restricted cash	\$ <u>76,131,369</u>

Deposits – custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, NHF's deposits may not be returned to it. Cash and cash equivalents and restricted cash consist of deposits with financial institutions, a collateral account, and amounts held with CalTRUST. As of December 31, 2018, NHF's deposits with financial institutions stated at \$2,528,342 are entirely insured or collateralized. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must be equal to at least 110% of the total amount deposited by governmental units.

Collateral accounts – NHF has funds held with securities firms. The funds represent collateral for the sales agreements of TBA GNMA and FNMA and/or FHLMC securities. As required by the Master Securities Forward Transaction Agreement between each securities firm and NHF, if at any time NHF has an "Out-of-the-Money" net unsecured forward exposure, the securities firm shall require NHF to maintain collateral having a margin value sufficient to eliminate such net unsecured forward exposure. If at any time NHF has an excess forward collateral amount, NHF may request the funds from the securities firm. At December 31, 2018, a portion of the funds on deposit with each securities firm represented collateral for a net unsecured forward exposure, and \$338,906 of those funds have therefore been presented as restricted cash in the statement of net position. Of the \$33,121,391 at the securities firms, \$30,688,578 is insured, and \$2,432,813 is uninsured.

Highly liquid investments – As of December 31, 2018, NHF also maintains a highly liquid investment account with CalTRUST in the amount of \$40,481,636. CalTRUST is a program established by local public agencies in California for the purpose of pooling and investing local agency funds. The total amount invested by public agencies in CalTRUST at December 31, 2018, exceeded \$2.58 billion.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

CalTRUST is a joint powers authority that was formed to pool and invest funds of public agencies. Three pools are offered and NHF is currently invested in the short-term and medium-term funds. Because NHF's deposits are maintained in a recognized Pooled Investment Fund (Fund) under the care of a third party and NHF's share of the pool does not represent specific identifiable investment securities owned by NHF, no disclosure of the individual deposits and investments and related custodial credit risk is required.

A Board of Trustees supervises and administers the investment program of CalTRUST. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53602, et seq. and 53635, et seq. CalTRUST short-term and medium-term funds are rated A- or better by a credit rating agency. NHF's highly liquid investment in CalTRUST is reported at fair value.

Interest rate and credit risk – Interest rate risk is the risk that changes in the market interest will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

NOTE 3 – SECOND MORTGAGE LOANS RECEIVABLE

Second mortgage loan portfolios are comprised of loans issued to individuals, and are serviced by mortgage companies on NHF's behalf. Second mortgage loans receivable as of December 31, 2018, are as follows:

Second mortgages	\$ 4,666,703
Allowance for loan losses	<u>(250,000)</u>
Total second mortgage loans receivable, net of allowance for loan losses	<u>\$ 4,416,703</u>

Activity in the allowance for loan losses for the year ended December 31, 2018, was as follows:

Balance, beginning of year	\$ 300,000
Charge-offs	(50,225)
Recoveries	6,422
Reversal of provision for loan losses	<u>(6,197)</u>
Balance, end of year	<u>\$ 250,000</u>

NOTE 4 – HOUSING PROGRAMS

NHF maintains its DPA programs targeting low to moderate income homebuyers. The programs provide DPA in the form of a gift or a zero interest rate second mortgage that is forgiven after three years (forgivable second). NHF has partnered with financial institutions to market the programs nationwide to homebuyers.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

The DPA can be up to 5% of the mortgage loan amount. NHF has accounted for the forgivable seconds as a nonexchange transaction, therefore no receivable has been recorded for the book value of the loan. The principal amount of the loan has been included as a component of grant cost in the statement of revenues, expenses and changes in net position. Any amounts received upon sale or refinance prior to the three-year term are recorded as income. No income was recorded as a result of sale or refinance as of December 31, 2018.

As part of this program, NHF purchases pools of government backed MBS for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBS's into the secondary market, NHF enters into sales agreements of TBA GNMA and FNMA and/or FHLMC securities, in which NHF has committed to deliver the specified securities at contracted prices at a future date. The entity has recorded a receivable of \$32,634,297 for the estimated proceeds from the sale of outstanding TBAs. NHF has also recorded a liability of \$32,711,641, the fair value as of December 31, 2018, to purchase the securities at prevailing prices in order to fulfill the future obligation.

NOTE 5 – RELATED-PARTY TRANSACTIONS

For the year ended December 31, 2018, NHF maintained a contract support services agreement with RCRC, an affiliated entity, for a flat fee of \$176,167 per month. Additionally, as stated in the NHF bylaws, NHF transfers to RCRC all revenues in excess of the corporation's business operating needs. The amounts of such excess revenues are approved by the NHF and RCRC boards on an annual basis. Excess revenues paid to RCRC were \$1,000,000 for the year ended December 31, 2018. As of December 31, 2018, NHF owed RCRC \$16,830 for expenses paid by RCRC on its behalf. Additionally, NHF entered into a service agreement with Golden State Finance Authority (GSFA), an affiliated entity, to manage its housing and energy programs to include lender training, customer service and support, loan pipeline management, pooling, delivery management, and pricing. Total revenue for those services is included in program management fee revenue. As of December 31, 2018, \$344,265 was due to NHF from GSFA for program management fees and \$362,921 of second mortgage payments collected on NHF's behalf were due from GSFA. Also, GSFA charges a fee to NHF for administrative services related to its trading platform. Fees incurred of \$50,000 are reported as a component of housing program expenses and revenues received of \$398,700 from energy program management fees are included in the statement of revenues, expenses, and changes in net position. The support service agreements with both RCRC and GSFA are annual agreements, expiring on December 31 of each year, with successive one-year automatic renewals until terminated by either party. The annual agreements are revised for fee and scope as needed and are approved by the applicable Board of Directors.

NOTE 6 – RISK MANAGEMENT

NHF is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. RCRC purchases commercial insurance through an insurance agent that obtains the appropriate insurance coverage needed from insurance companies, which includes coverage for NHF. NHF reimburses RCRC for its pro rata portion of the insurance premium. There has been no significant reduction in coverage compared to prior year and there have been no settlement amounts that have exceeded commercial insurance coverage for the last three years.

National Homebuyers Fund, Inc.
Notes to Basic Financial Statements
December 31, 2018

NOTE 7 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

In May 2015, NHF, and additionally RCRC and GSFA, two affiliated entities, were named as defendants in a summons brought by the Washington State Housing Finance Commission (Commission). The lawsuit alleged that NHF did not have the authority to provide homeownership financing services in the state of Washington. A Washington state judge ruled that NHF did not have the authority to offer services in the state of Washington. NHF appealed the decision and the court unanimously ruled in favor of NHF. The Commission is in the process of appealing this decision. The Washington State Supreme Court heard the oral arguments on March 14, 2019, however no decision has been issued as of the date of this report. Management of NHF believes that the outcome will not have a material adverse effect on the financial position or results of operations.

On April 18, 2019, the U.S. Department of Housing and Urban Development (HUD) issued Mortgagee Letter (ML) 19-06, seeking to clarify documentation requirements regarding down payment assistance on FHA-insured mortgages provided by governmental entities. The letter also imposed new jurisdictional restrictions on government entities that provide such assistance. On April 25, 2019, HUD issued ML 19-07, which extends the effective date for ML 19-06. Management believes that HUD's new geographic restrictions for government entities ignore state law and that HUD's action did not follow administrative procedure or due process. As of the date of issuance, management of NHF is unable to determine what impact the above-mentioned Mortgagee Letter will have on the financial position or results of operations.



Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
National Homebuyers Fund, Inc.

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 financial statements of National Homebuyers Fund, Inc. (NHF), as of and for the year ended December 31, 2018, and the related notes to basic financial statements, which collectively comprise NHF's basic financial statements, and have issued our report thereon dated May 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NHF'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 NHF's internal control. Accordingly, we do not express an opinion on the effectiveness of NHF'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 NHF'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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Sacramento, California
May 3, 2019



*Communication with
Those Charged with Governance*

National Homebuyers Fund, Inc.

December 31, 2018



MOSSADAMS

Communication with Those Charged with Governance

To the Board of Directors and Management
National Homebuyers Fund, Inc.

We have audited the financial statements of National Homebuyers Fund, Inc. (NHF), as of and for the year ended December 31, 2018, and have issued our report thereon dated May 3, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America and Government Auditing Standards

As stated in our engagement letter dated October 8, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America as well as Government Auditing Standards, issued by the Comptroller General of the United States, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHF's internal control over financial reporting. Accordingly, we considered NHF's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and during planning discussions conducted on November 14, 2018.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NHF are described in Note 1 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2018. We noted no transactions entered into by NHF during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

Significant Accounting Estimates

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 estimate affecting the financial statements was:

Management's estimate of the allowance for loan loss on second mortgages receivable is based on estimates of historical loss trends and current exposure in the loan pools. We evaluated the key factors and assumptions used in the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Disclosure of the reporting entity and its operations, basis of accounting, and summary of significant accounting policies are described in Note 1.

Disclosure of mortgage backed securities and forward sales of "to-be-announced" (TBA) securities in Notes 1 and 4. Mortgage backed securities sold, not yet purchased, represent obligations of NHF to deliver the specified security at a contract price, thereby creating a liability to purchase the security at quoted market prices. NHF also records a receivable as of the trade date for the estimated proceeds receivable. Realized and unrealized gains and losses on mortgage backed securities are reported in operating income as the activity relates solely to the housing program.

Significant 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 factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements as of and for the year ended December 31, 2018.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 May 3, 2019.

Management Consultation 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 NHF'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 Significant 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 NHF's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of NHF and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Sacramento, California
May 3, 2019



National Homebuyers Fund, Inc.
1215 K Street, Suite 1650 · Sacramento, California 95814
Phone: (866) 643-4968 · Fax: (916) 444-3551 · www.nhfloan.org

To: NHF Board of Directors
From: Lisa McCargar, Chief Financial Officer
Date: May 14, 2019
Re: NHF Budget Report

Summary

The Statement of Revenues and Expenses for NHF provides a budget to actual comparison for the quarter ended March 31, 2019.

Attachment

- NHF Statement of Revenues and Expenses, Budget vs. Actual, for the Quarter Ended March 31, 2019

NATIONAL HOMEBUYERS FUND
2019 BUDGET vs. ACTUAL
March 31, 2019

	2019 Annual Budget	Quarter Ended March 31, 2019 Budget	Quarter Ended March 31, 2019 Actual	Variance Favorable/ (Unfavorable)	Percent Favorable/ (Unfavorable)
Income:					
Housing Program Revenue	\$ 22,500,000	\$ 5,625,000	\$ 2,866,228	\$ (2,758,772)	-49.04%
Program Management Fee Revenue	1,145,000	286,250	226,228	(60,022)	-20.97%
2nd Mortgage Interest	420,000	105,000	89,822	(15,178)	-14.46%
Interest Income	1,000,000	250,000	376,590	126,590	50.64%
Unrealized Capital Gains(Loss)	20,000	5,000	247,432	242,432	4848.64%
Total Income	\$ 25,085,000	\$ 6,271,250	\$ 3,806,300	\$ (2,464,950)	-39.31%
Expenditures:					
Accounting & Auditing	\$ 19,000	\$ 4,750	\$ 2,780	\$ 1,970	41.47%
Business Development and Expansion	100,000	25,000	1,544	23,456	93.82%
Consultants	250,000	62,500	55,500	7,000	11.20%
Contract Support Services	2,020,000	505,000	505,000	-	0.00%
County MCC Fees	40,000	10,000	-	10,000	100.00%
Custodian / Trustee Fees	15,000	3,750	4,950	(1,200)	-32.00%
Dues, Fees & Subscriptions	20,000	5,000	3,840	1,160	23.20%
Excess Resources to RCRC	1,000,000	250,000	250,000	-	0.00%
Insurance	38,000	8,500	9,095	405	4.26%
Legal Services	500,000	125,000	71,885	53,315	42.65%
Loan Losses	60,000	15,000	-	15,000	100.00%
Miscellaneous	5,000	1,250	-	1,250	100.00%
Gift Program	20,000,000	5,000,000	2,415,566	2,584,434	51.69%
Pipeline Services	60,000	15,000	7,500	7,500	50.00%
Rent	76,500	19,125	18,789	336	1.76%
Total Expenditures	\$ 24,203,500	\$ 6,050,875	\$ 3,346,249	\$ 2,704,626	44.70%
Net Revenue Over Expenditures	\$ 881,500	\$ 220,375	\$ 460,051	\$ 239,676	108.76%



National Homebuyers Fund, Inc.
1215 K Street, Suite 1650 · Sacramento, California 95814
Phone: (866) 643-4968 · Fax: (916) 444-3551 · www.nhfloan.org

To: NHF Board of Directors
From: Lisa McCargar, Chief Financial Officer
Date: May 14, 2019
Re: NHF Investment Report

Summary

In accordance with NHF's investment policy, we are providing the NHF investment report. This report provides a summary of investment transactions from December 31, 2018 to March 31, 2019. In addition, the report provides the returns by investment type and a comparison to the 90 day Treasury Rate.

The CalTRUST yields are the funds' reported March 31st yields.

Attachment

- NHF Investment Report as of March 31, 2019

NATIONAL HOMEBUYERS FUND
Investment Report
For the Quarter Ended March 31, 2019

	Total	CalTRUST Short-Term	CalTRUST Medium-Term
Balance 12/31/2018	\$ 40,558,977	\$ 9,660,667	\$ 30,898,310
Additions	-	-	-
Withdrawals	-	-	-
Interest (includes accrued)	232,984	60,282	172,702
Capital Gain/(Loss)	247,432	29,043	218,389
Balance 3/31/2019	\$ 41,039,394	\$ 9,749,992	\$ 31,289,401

<u>Yield:</u>	Short Term	Mid Term
Annualized One Year	2.26%	2.15%
Average Maturity (days)	299	697
90 Day Treasury Bill Rate	2.40%	

All current cash investments are held in either CalTRUST's Short-Term Fund or Medium-Term Fund. Cash in the CalTRUST Short-Term Fund may be accessed within 24 hours. Cash in the CalTRUST Medium-Term Fund may be accessed at the end of each month.

Amounts include accrued interest at the end of the period.

No members of the Investment Committee have any conflict of interest with any current investment firms.

Purpose of transactions in excess of \$1 million:

-None

Phone Number

County

Name _____

Purpose of Trip, Details and Remarks:

[illegible]

Provide documentation for expenses as required in the Travel and Expense Policy for Delegates. Mileage expenses may not exceed \$0.58 per mile. For lodging in the Sacramento area, reimbursement will include lodging expense, inclusive of room rate, occupancy tax and other fees, up to a maximum of \$135 per night. Meal allowances may not exceed \$16 for breakfast, \$17 for lunch, and \$34 for dinner without prior approval, except as noted in the Travel and Expense Policy. Receipts for ALL requested reimbursements must be attached to this expense claim.

Supervisor's Signature

Mail Payment To:

Name:

Address:

Office Use Only:

Approved By:

G / L Code:

Amount:

