Financial Report
June 30, 2012 and 2011

South Dakota Housing Development Authority

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Chairman and Members of
the Board of Commissioners
South Dakota Housing Development Authority
(A Component Unit of the State of South Dakota)
Pierre, South Dakota

We have audited the accompanying statements of net assets of South Dakota Housing Development Authority, a component unit of the State of South Dakota, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of South Dakota Housing Development Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Housing Development Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of South Dakota Housing Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 audits 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of South Dakota Housing Development Authority taken as a whole. The supplementary schedules set forth on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Aberdeen, South Dakota
October 15, 2012

This section of the South Dakota Housing Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2012 (FY 2012) and 2011 (FY 2011). This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, notes to the financial statements, and supplementary information.

The Authority

The Authority was created in 1973 by the Act as a body politic and corporate and an independent public instrumentality for the purpose of encouraging the investment of private capital for the construction and rehabilitation of residential housing to meet the needs of persons and families in the state. Among other things, the Authority is authorized to issue bonds and notes to obtain funds to purchase mortgage loans to be originated by mortgage lenders and to make mortgage loans to individuals for the construction and permanent financing of single family housing; to make mortgage loans to qualified sponsors for the construction and permanent financing of multifamily housing; to purchase, under certain circumstances, existing mortgage loans; to purchase, from mortgage lenders, securities guaranteed by an instrumentality of the United States that finances mortgage loans; and to issue bonds to refund outstanding bonds. Additionally, the Authority has the power, among other powers, to provide technical, consulting and project assistance services to private housing sponsors; to assist in coordinating federal, state, regional and local public and private housing efforts; and to act as a housing and redevelopment commission. The Authority is also authorized to provide financing for day care facilities and assisted living and congregate care facilities; to guarantee mortgage loans; and to provide rehabilitation financing.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose. The activity of the Authority is accounted for as a proprietary type fund. The Authority is a component unit of the State of South Dakota and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

Basic Financial Statements

The basic financial statements include three required statements that provide different views of the Authority. They are the Statement of Net Assets, the Statement of Revenues, Expenses, and Change in Net Assets, the Statement of Cash Flows, and the accompanying notes to the financial statements.

The Statement of Net Assets provides information about the liquidity and solvency of the Authority by indicating the nature and the amounts of investments in resources (assets), the obligations to Authority creditors (liabilities), and net assets. Net assets represent the amount of total assets, less total liabilities. The organization of the statement separates assets and liabilities into current and non-current.

The Statement of Revenues, Expenses and Change in Net Assets accounts for all of the current year's revenues and expenses in order to measure the success of the Authority's operations over the past year. This statement is organized by separating operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses are defined as those relating to the Authority's primary business of construction, preservation, rehabilitation, purchase and development of affordable single and multifamily housing and daycare facilities. Nonoperating revenues and expenses are those that do not contribute directly to the Authority's primary business.

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The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Authority's cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

These statements are accompanied by a complete set of notes to the financial statements that communicate information essential for fair presentation of the basic financial statements. As such, the notes form an integral part of the basic financial statements.

Changes in Financial Position

The following tables show the significant changes that have taken place over the past three fiscal years ended FY 2012, FY 2011 and June 30, 2010 (FY 2010) for the Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets of the Authority:

Changes in Statement of Revenues, Expenses and Net Assets
(In Millions of Dollars)

	FY 2012	FY 2011	FY 2010	% Change 2012/2011	% Change 2011/2010
Revenues:					
Interest on mortgages	$ 74.5	$ 78.9	$ 80.5	-5.6%	-2.0%
Investment income	17.4	22.0	24.6	-20.9%	-10.6%
Increase (decrease) in fair market value of investments	3.1	(6.9)	5.7	-144.9%	-221.1%
HUD and other federal contributions	36.8	47.6	36.0	-22.7%	32.2%
Other income	4.8	6.4	8.9	-25.0%	-28.1%
Total revenues	136.6	148.0	155.7	-7.7%	-4.9%
Expenses:					
Interest	67.8	73.1	76.2	-7.3%	-4.1%
Servicer fees	4.2	4.5	4.4	-6.7%	2.3%
Arbitrage rebate provision (benefit)	(1.5)	(2.6)	(0.4)	-42.3%	550.0%
General and administrative	5.8	6.1	6.2	-4.9%	-1.6%
Housing assistance payments	24.5	24.7	24.1	-0.8%	2.5%
Other	13.6	25.5	11.9	-46.7%	114.3%
Total expenses	114.4	131.3	122.4	-12.9%	7.3%
Change in net assets	$ 22.2	$ 16.7	$ 33.3	32.9%	-49.8%

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Changes in Assets and Liabilities Net Assets
(In Millions of Dollars)

	FY 2012	FY 2011	FY 2010	% Change 2012/2011	% Change 2011/2010
Assets:					
Cash and equivalents	$ 153.2	$ 241.2	$ 284.4	-36.5%	-15.2%
Investments	510.0	423.2	561.2	20.5%	-24.6%
Mortgages and securities	1,443.0	1,588.8	1,635.5	-9.2%	-2.9%
Interest receivable	10.4	11.3	11.4	-8.0%	-0.9%
Deferred swap outflow	37.0	24.1	30.1	53.5%	-19.9%
Deferred costs	12.0	12.5	14.1	-4.0%	-11.3%
Capital assets	6.5	6.5	6.8	0.0%	-4.4%
Other	3.7	4.1	3.8	-9.8%	7.9%
Total assets	2,175.8	2,311.7	2,547.3	-5.9%	-9.2%
Liabilities:					
Current bond payable	49.4	185.8	178.4	-73.4%	4.1%
Interest payable	10.3	11.3	12.3	-8.8%	-8.1%
Fair value of interest swap rate	37.0	24.1	30.1	53.5%	-19.9%
Other	19.7	22.3	29.6	-11.7%	-24.7%
Noncurrent bonds payable	1,583.1	1,614.1	1,859.6	-1.9%	-13.2%
Total liabilities	1,699.5	1,857.6	2,110.0	-8.5%	-12.0%
Net Assets:					
Invested in capital assets, net of related debt	(0.1)	(0.1)	0.9	0.0%	-111.1%
Restricted by bond indentures	416.1	398.9	384.6	4.3%	3.7%
Restricted by HOME and NSP program	60.3	55.3	51.9	9.0%	6.6%
Total net assets	$ 476.3	$ 454.1	$ 437.4	4.9%	3.8%

Financial Highlights for FY 2012

- Total operating revenues decreased 7.7% to $136.6 million for FY 2012, from $148 million in FY 2011. This decrease is primarily due to sunsetting of federal programs created under the American Recovery and Reinvestment Act of 2009 and the decrease on loan interest income. These decreases were partially offset by the $3.1 million increase for market value adjustments of investments.

- Total operating expenses decreased 12.9% to $114.4 million for FY 2012, from $131.3 million in FY 2011. The primary components of the decrease were grant and interest expense. A decrease in grant expense, as a result of the above decrease in federal revenue, and a decrease in interest expense, caused by the $168 million decrease in bonds outstanding at year end.

- Net assets of the Authority for FY 2012 were $476.3 million, which represented an increase of $22.2 million, or 4.9%, from the FY 2011 net assets level.

- Mortgage loans receivable were $1,443 million for FY 2012, which represented a decrease of $145.8 million, or 9.2% for FY 2012, from the FY 2011 level of $1,588.8 million. This was a result of repayments, prepayments and loss reserves net of new loan purchases.

- Interest received on mortgage loans was $74.5 million for FY 2012, which represented a decrease of $4.4 million from the $78.9 million reported in FY 2011. As the loan balance decreased so did the interest received on loans.

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- Investment income was $17.4 million for FY 2012, which represented a decrease of $4.6 million, or 20.9% in FY 2012, from $22.0 million in FY 2011 due to the low interest rates received on new investments. The fair market value increased by $3.1 million in FY 2012 and decreased by $6.9 million in FY 2011. The FY 2012 fair market increase was a result of lower interest rates at fiscal year end.

- Bonds and notes outstanding of the Authority were $1,632.5 million for FY 2012, which was a decrease of $167.4 million, or 9.3% in FY 2012, from $1,799.9 million in FY 2011 due to more bonds being redeemed or maturing during the year than bonds being issued.

- Interest expense on bonds and notes outstanding decreased $5.3 million, or 7.3% in FY 2012, from $73.1 million in FY 2011 as a result of fewer bonds outstanding during the year.

- The Authority performed an operating transfer of $1,899,083 from the Homeownership Mortgage Loan Program ($701,852) and the Single Family Mortgage Loan Program ($1,197,231) to the General Operating Account. The Authority transferred 1% of loan purchases from the Homeownership Mortgage Loan Program and 0.5% of the outstanding loan balance of the Single Family Mortgage Loan Program to the General Operating Account to pay for operating expenses.

Financial Highlights for FY 2011

- Total operating revenues decreased 4.9% to $148 million for FY 2011, from $155.7 million in FY 2010 due to a decrease in the fair market value of investments.

- Total operating expenses increased 7.3% to $131.3 million for FY 2011, from $122.4 million in FY 2010 due to an increase in grant expense for the Neighborhood Stabilization Program and Tax Credit Assistance Program.

- Net assets of the Authority for FY 2011 were $454.1 million, which represented an increase of $16.7 million, or 3.8%, from the FY 2010 net assets level.

- Mortgage loans receivable were $1,588.8 million for FY 2011, which represented a decrease of $46.7 million, or 2.9% for FY 2011, from the FY 2010 level of $1,635.5 million. This was a result of repayments, prepayments and loss reserves net of new loan purchases.

- Interest received on mortgage loans was $78.9 million for FY 2011, which represented a decrease of $1.6 million from the $80.5 million reported in FY 2010. As the loan balance decreased so did the interest received on loans.

- Investment income was $22.0 million for FY 2011, which represented a decrease of $2.6 million, or 10.6% in FY 2011, from $24.6 million in FY 2010 due to the low interest rates received on new investments. The fair market value decreased by $6.9 million in FY 2011 and increased by $5.7 million in FY 2010. The FY 2011 fair market decrease was a result of rising interest rates at fiscal year end.

- Bonds and notes outstanding of the Authority were $1,799.9 million for FY 2011, which was a decrease of $238.1 million, or 11.7% in FY 2011, from $2,038.0 million in FY 2010 due to more bonds being redeemed or maturing during the year than bonds being issued.

- Interest expense on bonds and notes outstanding decreased $3.1 million, or 4% in FY 2011, from $76.2 million in FY 2010 as a result of fewer bonds outstanding during the year.

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- The Authority performed an operating transfer of $846,000 from the Homeownership Mortgage Loan Program ($40,000) and the Single Family Mortgage Loan Program ($806,000) to the General Operating Account. The Authority transferred 1% of loan purchases to the General Operating Account to pay for operating expenses.

Loan Portfolio Activity for FY 2012 and FY 2011

The Homeownership Mortgage Loan Program is the Authority's largest single category of assets. The loan portfolio decrease can be attributed to several factors: 1) The extinguishment of New Issue Bond Program (NIBP) proceeds used to finance mortgage revenue bonds; 2) Conventional lending rates were lower than the Authority's rates for portions of FY 2012, and 3). Implementation of new business model for the financing of mortgage loans. The following are some key highlights of loan related activities:

- Through the use of the New Issue Bond Program (NIBP) the Authority created a new single family mortgage loan program called the Single Family Mortgage Loan Program. The Authority began purchasing loans under the Single Family Mortgage Loan Program in December 2009. In October 2011 the Authority issued its last mortgage revenue bond financed by NIBP. The purchase of mortgage loans under the Homeownership Mortgage Loan Program was discontinued temporarily as a result of the creation and use of the Single Family Mortgage Loan Program.

- The Homeownership and Single Family Mortgage Loan Programs purchased approximately $97.9 million of new mortgage loans and program mortgage-backed securities (MBS) during FY 2012. The portfolio decreased 9.2% to $1,443 as of FY 2012 from $1,588.8 million as of FY 2011. During FY 2011, the loan portfolio decreased $46.7 million, or 2.9%, from $1,635.5 million as of FY 2010.

- In April of 2012 the Authority changed its business model from purchasing homeownership loans to purchasing program MBS secured by homeownership loans. As a result, the homeownership portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments due to program MBS will increase as they are purchased in place of loans. $2 million of program MBS are represented in investments at June 30, 2012. The Authority plans on selling a majority of its program MBS portfolio in the secondary market until financing can again be retained to hold the program MBS in its portfolio.

Debt Administration

The Authority is authorized to issue debt to purchase or originate mortgage loans on single family and multifamily residential properties. As of FY 2012, the Authority had $1,632.5 million in bonds outstanding, a 9.3% decrease from FY 2011. As of FY 2011, the Authority had $1,799.9 million in bonds outstanding, an 11.7% decrease from FY 2010.

The Authority issued a total of $252.8 million in bonds in FY 2012. Of that total, $97.8 million was issued as new long-term debt and $88.1 million was converted from NIBP issued short-term debt to long-term bonds and $19.6 million was short-term debt for warehousing. The proceeds were then used to purchase single family loans. No bonds were issued to preserve bonding authority, but $47.3 million was issued to refund bonds from prepayments and excess reserves during FY 2012. The Authority issued a total of $155.4 million in bonds in FY 2011. Of that total, $30 million was issued as new long-term debt and $45 million was converted from NIBP issued short-term debt to long-term bonds and $80 million was short-term debt for warehousing. The proceeds were then used to purchase single family loans. No bonds were issued to preserve bonding authority or to refund bonds from prepayments and excess reserves during FY 2011.

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The Authority retired or paid at maturity a total of $420.1 million in bonds in FY 2012. $393.9 million was redeemed from prepayments and excess reserves and $26.2 million was maturing principal. The Authority retired or paid at maturity a total of $392.8 million in bonds in FY 2011. $347 million was redeemed from prepayments and excess reserves and $45.8 million was maturing principal.

In FY 2012 and FY 2011, the Authority's Homeownership Mortgage Bonds were rated AAA by Standard and Poor's, and Aa1 by Moody's Investors Service. In FY 2012 and FY 2011, the Authority's Multiple Purpose Bonds are insured by Assured Guaranty Ltd. (formerly Financial Security Assurance Holdings, Ltd.) and were rated Aa3 by Moody's Investors Service. Moody's Investors Service has given the Authority an Issuer Rating of Aa3. In FY 2012 and FY 2011, the Authority's Single Family Mortgage Bonds were rated Aa3 by Moody's Investor Service.

More detailed information about the Authority's debt can be found in Note 5, Bonds Payable.

Capital Assets
Capital assets remained consistent in FY 2012 at $6.5 million in FY 2012 and FY 2011.

Capital assets decreased by $0.3 million in FY 2011 from $6.8 million in FY 2010. This net change is due to additions and retirement of assets and depreciation expense.

More detailed information about the Authority's capital assets can be found in Note 14, Capital Assets.

Economic Outlook
Economic conditions in South Dakota are relatively good in comparison to the rest of the nation. Our foreclosure rate of 1.1%, our delinquency rate of 4.5% and our unemployment rate of 4.3% are well below the national averages. These percentages, along with our stable home prices, have all contributed to the success of the Authority over the past five years. Going forward the Authority will try to maximize its return on investments and will continue to look for innovative ways to finance the Authority's Single and Multifamily programs.

In September 2012 a resolution was passed authorizing the issuance of Mortgage Credit Certificates (MCCs) and also authorized the executive director to file one or more MCC elections with the Internal Revenue Service to determine the MCC rates, terms and criteria, to give notice as required by the federal tax laws of the implementation of the MCC program and to otherwise implement the MCC program.

Overview
This financial report is designed to provide a general overview of the Authority's finances. If you have questions about this report or would like to request additional information, contact the South Dakota Housing Development Authority's Director of Finance at PO Box 1237, 3060 E. Elizabeth Street, Pierre, SD 57501-1237.

Assets	2012	2011
Current Assets		
Cash and cash equivalents (Note 3)	$ **153,167,095**	$ 241,141,376
Investment securities - other (Note 3)	**25,723,419**	44,956,277
Investments - program mortgage-backed securities (Note 3)	**97,893**	-
Mortgage loans receivable, net (Note 4)	**76,446,957**	78,169,147
Guaranteed mortgage securities (Note 2)	**2,038,056**	817,844
Interest receivable	**10,382,510**	11,314,637
Other receivables	**245,139**	556,770
Other assets	**2,063,300**	2,100,677
Total Current Assets	**270,164,369**	379,056,728
Noncurrent Assets		
Investment securities - other (Note 3)	**482,366,891**	378,222,036
Investments - program mortgage-backed securities (Note 3)	**1,859,966**	-
Mortgage loans receivable, net (Note 4)	**1,316,788,685**	1,460,050,818
Guaranteed mortgage securities (Note 2)	**47,730,478**	49,731,627
Other receivables	**1,413,464**	1,484,327
Furniture and equipment, at cost, less accumulated depreciation	**1,076,746**	933,796
Building, at cost, less accumulated depreciation	**4,489,827**	4,615,558
Land improvement, at cost, less accumulated depreciation	**722,410**	779,438
Land	**220,409**	220,409
Deferred swap outflow (Note 7)	**36,992,527**	24,124,719
Deferred financing costs, net	**12,010,706**	12,531,194
Total Noncurrent Assets	**1,905,672,109**	1,932,693,922
Total Assets	**2,175,836,478**	2,311,750,650
Liabilities		
Current Liabilities		
Bonds payable (Note 5)	**49,441,987**	185,776,745
Accrued interest payable	**10,257,679**	11,259,180
Accounts payable and other liabilities (Note 15)	**1,488,076**	1,554,730
Multifamily escrows and reserves	**17,221,594**	17,917,394
Total Current Liabilities	**78,409,336**	216,508,049
Noncurrent Liabilities		
Bonds payable (Note 5)	**1,583,124,144**	1,614,108,789
Accounts payable and other liabilities (Note 15)	**996,652**	2,852,977
Fair value of interest rate swap agreements (Note 7)	**36,992,527**	24,124,719
Total Noncurrent Liabilities	**1,621,113,323**	1,641,086,485
Total Liabilities	**1,699,522,659**	1,857,594,534
Net Assets		
Invested in capital assets, net of related debt	**(90,608)**	(50,799)
Restricted by bond indentures	**416,099,244**	398,904,546
Restricted by HOME and NSP Program	**60,305,183**	55,302,369
Total Net Assets	$ **476,313,819**	$ 454,156,116

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30

Operating Revenues	**2012**	2011
Interest income on mortgage loans and guaranteed mortgage securities	**$ 74,543,178**	$ 80,605,358
Earnings on investments and program mortgage-backed securities	**17,378,186**	20,377,701
Net increase (decrease) in the fair market value of investments	**3,114,825**	(6,949,029)
HUD contributions	**35,697,995**	42,835,755
Other federal contributions	**1,056,554**	4,797,355
Other income	**4,783,959**	6,438,229
Total Operating Revenues	**136,574,697**	148,105,369
Operating Expenses		
Interest	**67,804,116**	73,148,980
Housing assistance payments	**24,516,872**	24,706,483
Servicer fees	**4,180,438**	4,496,005
Arbitrage rebate benefit	**(1,495,250)**	(2,588,486)
General and administrative	**5,764,703**	6,057,039
Amortization of deferred financing costs	**2,394,353**	2,529,176
Other housing programs	**9,235,464**	21,345,282
Provision for loan loss	**2,016,298**	1,630,015
Total Operating Expenses	**114,416,994**	131,324,494
Change in net assets	**22,157,703**	16,780,875
Net assets, beginning of year	**454,156,116**	437,375,241
Net Assets, End of Year	**$ 476,313,819**	$ 454,156,116

	2012	2011
Cash Flows Provided by Operating Activities		
Receipts from loan payments and program mortgage-backed securities	**$ 325,674,247**	$ 297,050,076
Receipts for program fees	**5,166,453**	6,811,849
Receipts from federal housing programs	**36,754,549**	47,633,110
Payments for loan programs and program mortgage-backed securities	**(110,928,329)**	(184,417,649)
Payments for operating expenses	**(7,177,250)**	(9,863,578)
Payments to employees	**(3,569,148)**	(3,556,197)
Payments for federal housing programs	**(24,516,872)**	(24,706,483)
Payments for other housing programs	**(9,125,085)**	(13,069,486)
Net Cash Provided by Operating Activities	**212,278,565**	115,881,642
Cash Flows Used in Noncapital Financing Activities		
Proceeds from sale of bonds	**255,637,780**	155,842,130
Principal paid on bonds	**(420,061,746)**	(392,768,663)
Interest paid on bonds	**(70,585,162)**	(75,350,070)
Bond issuance costs paid	**(2,230,039)**	(932,633)
Net Cash Used in Noncapital Financing Activities	**(237,239,167)**	(313,209,236)
Cash Flows Used in Capital and Related Financing Activities		
Purchase of fixed assets	**(359,223)**	(121,688)
Proceeds from sale of assets	**200**	-
Interest paid on capital debt	**(14,719)**	(23,520)
Net Cash Used in Capital and Related Financing Activities	**(373,742)**	(145,208)
Cash Flows Provided by (Used in) Investing Activities		
Purchase of investment securities	**(715,756,212)**	(698,311,191)
Proceeds from sale and maturities of investment securities	**636,908,096**	827,943,285
Interest received on investments	**13,781,865**	24,581,194
Net Cash Provided by (Used in) Investing Activities	**(65,066,251)**	154,213,288
Change in Cash and Cash Equivalents	**(90,400,595)**	(43,259,514)
Cash and Cash Equivalents, Beginning of Year	**241,141,376**	284,400,890
Cash and Cash Equivalents, End of Year	**$ 150,740,781**	$ 241,141,376
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities		
Operating income	**$ 22,157,703**	$ 16,780,875
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on bonds payable	**67,804,116**	73,148,980
Net (increase) decrease in fair market value of investments	**(3,114,825)**	6,949,029
Interest from investments	**(19,010,149)**	(22,041,507)
Amortization of deferred financing costs	**2,394,353**	2,529,176
Provision for loan loss	**2,016,298**	1,630,015
Granted loans receivable	**-**	10,769,268
Depreciation	**395,274**	394,420
Changes in assets and liabilities		
Loan interest receivable	**731,498**	(516,001)
Accounts payable and other liabilities	**(1,922,979)**	(5,108,089)
Mortgage loans receivable	**142,968,025**	33,877,516
Investments - program mortgage-backed securities	**(1,864,820)**	-
Other receivables	**382,494**	373,620
Other assets	**37,377**	(731,081)
Multifamily escrows and reserves	**(695,800)**	(2,174,579)
Net Cash Provided by Operating Activities	**$ 212,278,565**	$ 115,881,642

Note 1 - Authorizing Legislation and Indentures:

Authorizing Legislation:

The South Dakota Housing Development Authority (the Authority) was created in 1973 by an Act of the South Dakota Legislature. The Authority was established for the purpose of encouraging the investment of private capital and stimulating the construction and rehabilitation of residential housing for the people of the State through the use of public financing, including public construction, public loans, public purchase of mortgages and otherwise. The Authority may issue notes and bonds in principal amounts specifically approved by the Governor. The Internal Revenue Code of 1986 established a state ceiling for qualified private activity bonds applicable to the State of South Dakota for any calendar year. The calendar year state allocation for South Dakota is $284,560,000 for 2012. Amounts issued by the Authority shall not be deemed to constitute a debt of the State of South Dakota or any political subdivision thereof. The Authority is a business-type activity component unit of the State of South Dakota. As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

Description of Reporting Entity:

The Authority is considered a single enterprise fund for financial reporting purposes. The activities of the Authority are recorded under various indentures established for the administration of the Authority's programs. A further description of these indentures is as follows:

General Operating Account:

This account, authorized by the enabling legislation, was initially funded in August 1973 by a $12,420 grant of federal funds from the South Dakota State Economic Opportunity Office. Funding on an ongoing basis is derived principally from loan origination fees, allowable transfers from other funds and investment income. Authorized activities of this account include the following:

(i) payment of general and administrative expenses and other costs not payable by other funds of the Authority; and,
(ii) those activities deemed necessary to fulfill the Authority's corporate purposes for which special funds are not established.

Included in the account are the activities of statewide Section 8 Housing Assistance Payments Programs, which the Authority administers on behalf of the U.S. Department of Housing and Urban Development (HUD). Under these programs, the Authority distributes housing assistance payments received from HUD.

The Authority has appropriated all income received in the General Operating Account to a General Reserve Account. This account can be used only for the administration and financing of programs in accordance with the policy and purpose of the enabling legislation.

Homeownership Mortgage Bonds:

This indenture, established under the Homeownership Mortgage Bond Resolution adopted June 16, 1977, as amended and restated as of March 11, 2008, is prescribed for accounting for the proceeds from the sale of the Homeownership Mortgage Bonds, the debt service requirements of the bond indebtedness, the remaining assets and liabilities of the Single Family Housing Program and mortgage loans on eligible single family residential housing disbursed from bond proceeds. The mortgage loans are made to finance the construction, rehabilitation or ownership of such housing, and are insured by the Federal Housing Administration (FHA) or private mortgage insurers, guaranteed by the Veterans Administration (VA), guaranteed by USDA Rural Development (RD), or have a principal amount which does not exceed 80% of the appraised value of the home.

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Single Family Mortgage Bonds:

This indenture, established under the Single Family Mortgage Bonds Resolution adopted on December 2, 2009, was created to utilize the United States Treasury's Single Family New Issue Bond Program. This indenture will facilitate the administration and financing of programs for the development or acquisition of owner-occupied housing, at prices that persons of low or moderate income can afford.

Multiple Purpose Bonds:

This indenture, established under the Multiple Purpose Bond Resolution adopted March 1, 2002, is prescribed for accounting for the proceeds from the sale of Multiple Purpose Bonds, for the purpose of effectuating the public purposes of the Authority and establishing procedures to assure that amounts will be sufficient for the repayment of money borrowed for this purpose.

Multifamily Housing Revenue Bonds:

This indenture, established under the Multifamily Housing Revenue Bonds Resolution adopted April 15, 1991, is prescribed for accounting for proceeds from the sale of Multifamily Housing Revenue Bonds to provide funds to make, acquire or otherwise finance loans from multifamily housing developments, or to purchase guaranteed mortgage pass-through certificates to be issued and guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA).

Multifamily Mortgage Pass-Through Bonds:

This indenture, established under the Mortgage Pass-Through Certificates Resolution adopted June 27, 1995, is prescribed for accounting for proceeds from the sale of Mortgage Pass-Through Certificate Bonds to provide funds to acquire mortgage pass-through certificates. The Bonds are special, limited obligations of the Authority, payable solely from revenues and assets held in and receivable by Funds and Accounts established under the Bond Resolution.

Multifamily Risk Sharing Bonds:

This indenture, established under the Multifamily Housing Revenue Bonds Series 1999 Resolution adopted July 1, 1999, is prescribed for accounting for proceeds from the sale of Multifamily Housing Revenue Bonds to provide funds to finance loans for multifamily housing developments. The Bonds are special limited obligations of the Authority, payable solely from revenues and assets held in and receivable by Funds and Accounts established under the Bond Resolution.

Note 2 - Significant Accounting Policies:

Basis of Presentation:

The Authority, as a component unit of government, follows standards established by the Governmental Accounting Standards Board (GASB). As required by government accounting standards, these financial statements present the Authority and its component units, entities for which the Authority is considered to be financially accountable. The criteria for inclusion in or exclusion from the financial reporting entity is outlined in GASB Statement 14 amended by GASB 39 and includes oversight responsibility, including financial accountability, over agencies by the Authority's Board of Commissioners. The Authority is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Authority.

In accordance with GASB Statement 20, the Authority does not apply all private sector guidance issued after November 30, 1989.

Basis of Accounting:

The Authority follows the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized when they are incurred.

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Interest Income:

Accrued interest is recognized on the amount of outstanding mortgage loans. The accrual of interest on delinquent loans is discontinued at the time that foreclosure activities are completed.

Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, cash and cash equivalents are defined as investments with original maturities of ninety days or less.

Investments-Program Mortgage-backed Securities and Investment Securities:

Investments of the Authority are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in income.

Program Mortgage-Backed Securities

Program mortgage-backed securities are backed by single family mortgage loans. These securities are guaranteed as to payment of principle and interest by either the Government National Mortgage Association or the Federal National Mortgage Association.

Mortgage Loans Receivable:

Loans receivable are carried at their unpaid principal balance, net of unamortized discounts or premiums, and are recorded as amounts are disbursed. Premiums and discounts are amortized, using the loans outstanding method, over the life of the loans.

Some loans receivable contain provisions for the loans to become grants if certain criteria is met. The conversion of loans receivable to grants are calculated on an annual basis, though the debtor is not entitled to receive full credit until maturity of the loan agreement or upon meeting certain criteria. As loans receivable converted to grants are estimated, loans receivable is credited and a charge to operations is made through other housing programs. Loans receivable includes credits of $12,686,068 and $10,439,908 as of June 30, 2012 and 2011, respectively. Upon maturity of the loan agreement or achievement of specified criteria, the applicable portion of the loan receivable balance is awarded to the debtors.

Guaranteed Mortgage Securities:

Guaranteed Mortgage Securities are mortgages on multifamily developments, the principal and interest payments of which are guaranteed by another entity. The Authority carries the securities at their amortized value.

Fee Income:

Fees collected as reimbursement for costs incurred in developing and implementing the programs of the Authority and for other specific services are recorded as income in the period received. Commitment fees collected in connection with Homeownership and Multifamily mortgages are credited to income as loans are purchased against outstanding commitments. During fiscal year 2011, the Authority stopped charging commitment fees on Homeownership loans purchased. The Authority now performs an operating transfer of 1% of loan purchases from the Homeownership indenture and 0.5% of the outstanding balance from the Single Family Indenture to the General Operating Account.

Deferred Financing Costs:

Issuance costs on bonds are amortized, using the bonds outstanding method, over the life of the bonds. The unamortized costs of bonds which are refunded are amortized either over the life of the refunding bonds or the life of the bonds that were refunded, whichever is shorter.

Receivables:

Receivables not expected to be collected within one year are recorded in the Statement of Net Assets as noncurrent.

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Bond Premiums and Discounts:

Premiums and discounts on bonds are amortized using the bonds outstanding method over the life of the bonds to which they relate.

Interest Rate Swaps:

Interest rate swap agreements are recorded at fair value on the Statement of Net Assets. If the swap agreements are effective hedges, an offsetting deferred swap inflow or outflow is recorded on the Statement of Net Assets. If the swap agreements are not effective hedges, the interest expense is increased or decreased by the change in the fair value of the swap agreements. Swap effectiveness is determined using the synthetic instrument method. Since the swap agreements are all effective hedges, there was no effect on net assets for fiscal years 2012 and 2011.

Real Estate Owned:

Real estate owned and held for sale arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans. Real estate held for sale in connection with the Single Family and Multifamily Program is recorded at the unpaid principal balance plus accrued interest on the loans as of the date the loans become real estate owned. Since most of the Single Family loans are insured by Federal Housing Administration (FHA), Veterans Affairs (VA), Rural Development (RD) or by private mortgage insurance, based on the Authority's past experience, it is anticipated that the Authority will recover a majority of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds. The Single Family amounts determined to be uncollectible are recorded as an allowance for loan loss. Recoveries for Multi-Family nonperforming loans arise from the sale of such property. Estimates for amounts considered to be uncollectible are recorded as an allowance for loan loss.

Capital Asset Policy:

Capital assets costing more than $5,000 are recorded at cost when acquired and depreciated over the estimated useful life of the asset, using the straight-line method. Assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in the Statements of Operations. The classes of assets used by the Authority are furniture and equipment, land, land improvements, and buildings. The estimated useful lives for furniture and equipment range from 4-15 years, estimated useful lives of land improvements range from 20-30 years and the estimated useful lives of buildings range from 27-50 years.

Inventory:

Other assets consist of inventory, which are recorded at the lower of cost or market. Cost is determined using the weighted average method.

Arbitrage Rebate:

The Authority is limited in the investment yield which it may retain for its own use on the nonmortgage investments for most of its bond issues. Excess arbitrage yields must be rebated to the federal government in accordance with applicable federal tax regulations. The Authority has recorded liabilities in the amount of $996,652 and $2,852,977 at June 30, 2012 and 2011, respectively, for arbitrage rebates which are included in accounts payable and other liabilities.

Escrows and Reserves:

The Authority requires multifamily projects to escrow funds with the Authority to cover certain future expenditures. Investments equal to the amount of escrows and reserves are restricted for this purpose. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of the Authority.

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Revenue and Expense Recognition:

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's principal ongoing operations. The Authority records all revenues derived from mortgages, investments, servicing, financing and federal housing programs as operating revenues since these revenues are generated from the Authority's daily operations needed to carry out its purpose. Operating expenses include bond interest, amortization of bond issuance costs, and depreciation and administrative expenses related to administration of the Authority's programs. The Authority does not have nonoperating revenue and expenses for the years ending June 30, 2012 and 2011.

Pass-Through Grants:

The Authority follows GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The effect of applying these provisions is to increase both operating income and expense when eligible expenses occur.

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, reported amounts of revenues and expenses and other disclosures. Actual results could differ from those estimates.

Net Assets:

Net assets are classified in the following three components:

- Invested in Capital Assets, Net of Related Debt – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets – Consists of net assets with constraints placed on their use by (1) external groups, such as creditors or (2) law through enabling legislation.
- Unrestricted – Consists of net assets that do not meet the definition of invested in capital assets or restricted.

Allowance for Loan Loss:

The allowance for loan loss is determined based upon management's evaluation of the loan portfolio. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower, past experience, and the economy as a whole. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

Note 3 - Deposits and Investments:

Under the terms of the bond resolutions, the Authority is generally restricted to investments in direct general obligations of the United States of America, agencies and instrumentalities of the United States of America, negotiable or nonnegotiable certificates of deposit issued by a bank that is insured by the FDIC, obligations of the state or any agency or instrumentality thereof, or securities that are permissible for the investment of state public funds under the provisions of § 4-5-26. As of the years ended June 30, 2012 and 2011, all investments held by the Authority were in compliance with the requirements of the bond resolutions.

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Deposits:

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority's deposit policy requires deposits in excess of the Depository Insurance maximums must be collateralized 100%. Collateral must be deposited for safekeeping in a financial institution that is not owned or controlled either directly or indirectly by the pledging financial institution. The financial institution where the collateral is held must be a member of the Federal Reserve. As of June 30, 2012 and 2011, of the Authority's deposits of $2,055,479 (carrying value of $1,722,101) and $1,951,373 (carrying value of $1,612,342), respectively, all were covered by insurance or collateral held in the Authority's name in accordance with the Authority's deposit policy.

Investments:

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have an investment policy for custodial risk. All investments are held in the Authority's name.

Interest Rate Risk: The Authority limits the maturities of investments for its restricted accounts. Investments of the Capital Reserve accounts must provide for the purposes thereof as estimated by the Authority. The investments must not mature later than the final maturity of the related Series of the Bonds. The average duration of individual securities will not exceed twenty years. Investments of the Mortgage Reserve accounts must provide for the purposes thereof as estimated by the Authority. The duration of 50% of individual securities will not exceed two years from the date of purchase or deposit. The Authority assumes that its callable investments will not be called. The Authority invests in mortgage pass-through securities issued by Fannie Mae (Federal National Mortgage Association), Ginnie Mae (Government National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). Because prepayments of mortgages underlying these securities affect the principal and interest payments received by these securities, these securities are considered highly sensitive to interest rate risk. As of June 30, 2012 and 2011, 19% and 17%, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2012 and 2011, the Authority had investments maturing as follows:

		2012 Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**Greater Than 10**
U.S Government obligations	**$ 125,068,825**	**$ 10,235,496**	**$ 77,526,049**	**$ 28,764,917**	**$ 8,542,363**
U.S. Agency obligations	**369,445,038**	**15,261,388**	**155,426,486**	**46,048,461**	**152,708,703**
Money market/mutual funds	**150,954,994**	**150,954,994**	**-**	**-**	**-**
Investment agreements	**5,009,094**	**-**	**-**	**-**	**5,009,094**
Certificates of deposit	**4,343,538**	**498,985**	**3,746,508**	**98,045**	**-**
State obligations	**6,671,674**	**251,303**	**5,849,116**	**571,255**	**-**
Total	**$ 661,493,163**	**$ 177,202,166**	**$ 242,548,159**	**$ 75,482,678**	**$ 166,260,160**

		2011 Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	Greater Than 10
U.S Government obligations	$ 190,597,027	$ 98,719,892	$ 66,835,723	$ 5,115,350	$ 19,926,062
U.S. Agency obligations	308,424,879	33,854,933	139,504,382	30,718,373	104,347,191
Money market/mutual funds	151,729,401	151,629,401	-	100,000	-
Investment agreements	5,009,165	-	-	-	5,009,165
State obligations	6,946,874	280,206	5,199,980	1,466,688	-
Total	$ 662,707,346	$ 284,484,432	$ 211,540,085	$ 37,400,411	$ 129,282,418

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At June 30, 2012 and 2011, certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2012			
	Homeownership Mortgage Bonds	**Single Family Mortgage Bonds**	**Multiple Purpose Bonds**	**Multifamily Risk Sharing Bonds**
Capital reserve for debt service	**$ 81,427,950**	**$ -**	**$ 5,222,954**	**$ 611,416**
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	**34,791,969**	**-**	**-**	**-**
Debt service reserve	**-**	**10,500,000**	**-**	**-**
Total	**$ 116,219,919**	**$ 10,500,000**	**$ 5,222,954**	**$ 611,416**

	2011			
	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Risk Sharing Bonds
Capital reserve for debt service	$ 90,738,600	$ -	$ 5,222,954	$ 611,416
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	40,424,936	-	-	-
Debt service reserve	-	7,500,000	-	-
Total	$ 131,163,536	$ 7,500,000	$ 5,222,954	$ 611,416

Credit Risk: It is the investment policy of the Authority to invest in securities limited to direct general obligations of the United States Government, United States Government Agencies, direct and general obligations of any state within the United States, mutual funds invested in securities mentioned above and investment agreements secured by securities mentioned above. If securities are downgraded after purchase, the Authority will analyze the reason for downgrade and determine what, if any, action is needed. Investments issued by or explicitly guaranteed by the United States Government are not considered to have a credit risk. The investments are grouped as rated by Moody's Investors Service:

Moody's Rating	**2012**	2011
Aaa	**$ 155,286,211**	$ 451,230,153
Aa	**366,568,870**	7,825,903
A	**158,355**	-
BBB	**545,620**	400,920
Unrated	**9,115,270**	8,507,200
Total	**$ 531,674,326**	$ 467,964,176

Concentration of Credit Risk: The Authority will minimize Concentration Credit Risk, by diversifying the investment portfolio and reducing the impact of potential losses from any one type of security or issuer. At June 30, 2012, the Authority held 5% or more of their investments with the following issuers: Federal Home Loan Bank (17.23%), Federal National Mortgage Association (21.37%), and Federal Home Loan Mortgage Corporation (11.83%). At June 30, 2011, the following issuers held 5% or more of the Authority's investments: Federal Home Loan Bank (14.70%), Federal National Mortgage Association (18.20%), and Federal Home Loan Mortgage Corporation (9.02%).

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Note 4 - Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	2012	2011
Homeownership Mortgage Loans	**$ 975,735,808**	$ 1,205,552,730
Single Family Mortgage Loans	**313,246,094**	233,335,444
Multiple Purpose Loans	**32,297,247**	33,895,306
Other (General Operating Account)	**71,956,493**	65,436,485
Total	**$ 1,393,235,642**	$ 1,538,219,965

The above loans are substantially insured by the FHA or private mortgage insurance companies, or guaranteed in part by the VA or USDA Rural Development. Losses on mortgage loans in the Homeownership Mortgage Program Bond Program are also secured by an insurance reserve fund established under the bond resolution. The mortgage loans receivable are reflected net of an allowance for loan loss of $1,749,270 and $1,943,207 as of June 30, 2012 and 2011, respectively.

Included in the mortgage loan receivable balance is real estate owned by the Authority from foreclosures. The amount of real estate owned at June 30, 2012 and 2011 is $4,763,713 and $6,675,962, respectively.

Note 5 - Bonds Payable:

Homeownership Mortgage Bonds require annual principal payments on May 1 of each year. Homeownership Mortgage bonds outstanding at June 30 are (in thousands):

			2012			2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
1997 Series C	2012-2018	5.375%	$ -	$ -	**$ -**	$ 830
1997 Series D	2012-2024	5.375% - 5.4%	-	-	**-**	1,705
1997 Series E-1	2012-2018	5.3%	-	-	**-**	2,220
1997 Series E-2	2012-2030	5.25% - 5.3%	-	-	**-**	8,715
1997 Series E-3	2012-2030	5.25 % - 5.35%	-	-	**-**	2,745
1998 Series A	2012-2018	5.3%	-	-	**-**	1,010
2001 Series F	2026-2030	4.85%	-	12,635	**12,635**	15,490
2002 Series C	2012-2033	4.85% - 5.47%	-	-	**-**	13,180
2002 Series D	2012-2014	4.65% - 4.85%	-	-	**-**	3,015
2002 Series F	2012-2014	4.05% - 4.3%	-	-	**-**	4,060
2002 Series G	2015-2033	3.95% - 5.3%	-	-	**-**	18,605
2002 Series H	2012-2014	4.05% - 4.35%	-	-	**-**	5,425
2002 Series I	2015-2033	3.75% - 5.25%	-	-	**-**	17,985
2003 Series A	2013-2023	4.0% - 4.75%	4,785	1,455	**6,240**	7,325
2003 Series B	2023-2034	4.95% - 5.05%	-	22,235	**22,235**	23,535
2003 Series C-1	2032	0.28% (2)	-	26,500	**26,500**	26,500
2003 Series C-2	2032	0.26% (2)	-	26,400	**26,400**	26,400
2003 Series D	2013-2022	3.80% - 4.8%	2,020	2,785	**4,805**	6,500
2003 Series E	2021-2028	5.0%	-	-	**-**	1,255
2003 Series F	2034	0.28% (2)	-	20,000	**20,000**	20,000
2003 Series G	2013-2017	4.10% - 4.55%	4,755	5,080	**9,835**	12,145
2003 Series H	2017-2028	4.85% - 5%	-	9,585	**9,585**	12,685
2003 Series I	2034	0.27% (2)	-	28,000	**28,000**	28,000
2004 Series A	2013-2017	4.25% - 4.5%	5,690	-	**5,690**	14,610
2004 Series B	2021-2027	4.95% - 5%	-	6,520	**6,520**	9,750
2004 Series C	2034	0.27% (2)	-	34,000	**34,000**	34,000
2004 Series D	2032	0.26% (2)	-	11,890	**11,890**	11,890
2004 Series E	2013-2017	3.8% - 4.25%	12,440	-	**12,440**	14,660
2004 Series F	2017-2028	4.6% - 5.25%	-	10,865	**10,865**	15,825
2004 Series G	2034	0.25% (2)	-	33,000	**33,000**	33,000

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Bond Issue	Maturity Date	Interest Rate	2012 Serial	2012 Term (1)	2012 Total Outstanding	2011 Total Outstanding
2005 Series A	2013-2018	3.80% - 4.2%	13,945	-	**13,945**	16,795
2005 Series B	2018-2027	4.5% - 5.25%	-	3,845	**3,845**	8,010
2005 Series C	2027-2035	0.27% (2)	-	41,000	**41,000**	41,000
2005 Series D	2031	0.26% (2)	-	6,925	**6,925**	6,925
2005 Series E	2013-2018	3.75% - 4.1%	14,940	-	**14,940**	17,125
2005 Series F	2027-2030	4.6% - 5.0%	-	25,050	**25,050**	29,210
2005 Series G	2030-2035	0.24% (2)	-	25,000	**25,000**	25,000
2005 Series J	2012-2018	3.95% - 4.6%	-	-	**-**	27,695
2005 Series K	2019-2036	4.9% - 5.75%	-	77,875	**77,875**	87,620
2006 Series A	2013-2019	4.05% - 4.5%	19,355	-	**19,355**	23,245
2006 Series B	2019-2031	4.9% - 6%	-	35,330	**35,330**	40,535
2006 Series C	2037	0.18% (2)	-	45,000	**45,000**	45,000
2006 Series D	2013-2019	3.7% - 4.0%	17,055	-	**17,055**	17,055
2006 Series E	2013-2036	4.5% - 5.75%	-	60,030	**60,030**	65,925
2007 Series A	2013-2019	3.85% - 4.2%	14,105	-	**14,105**	14,105
2007 Series B	2013-2037	4.1% - 5.5%	2,015	61,810	**63,825**	69,835
2007 Series D	2013-2018	3.95% - 4.35%	12,920	-	**12,920**	12,920
2007 Series E	2012-2037	4.9% - 5.75%	-	46,685	**46,685**	69,625
2007 Series G	2014-2018	3.75% - 4.2%	7,970	-	**7,970**	7,970
2007 Series H	2013-2037	4.15% - 5.5%	3,340	36,705	**40,045**	45,775
2007 Series I	2026-2038	0.18% (2)	-	34,000	**34,000**	34,000
2008 Series A	2016-2018	4.0% - 4.375%	7,255	-	**7,255**	7,255
2008 Series B	2013-2028	4.375% - 5.75%	5,275	2,335	**7,610**	14,895
2008 Series C	2028-2039	0.22% (2)	-	50,000	**50,000**	50,000
2008 Series D	2013-2019	3.5% - 4.45%	13,450	-	**13,450**	15,035
2008 Series E	2023-2038	5.375% - 6.0%	-	17,970	**17,970**	24,365
2008 Series F	2027-2039	0.19% (2)	-	34,000	**34,000**	34,000
2008 Series G	2013-2038	4.25% - 6.25%	3,000	2,540	**5,540**	23,070
2009 Series A	2039	0.15% (2)	-	46,285	**46,285**	48,525
2009 Series B	2013-2027	2.15% - 5.0%	32,045	15,265	**47,310**	50,680
2009 Series C	2027-2039	0.18% (2)	-	22,000	**22,000**	22,000
2012 Series A	2013-2031	.08%-4.5%	11,795	16,525	**28,320**	-
2012 Series B	2018-2026	1.85%-3.25%	10,745	8,235	**18,980**	-
2012 Series C	2031-2042	3.75%-4.0%	6,200	4,745	**10,945**	-
Plus unamortized premium					**9,292**	9,978
Less unamortized loss of refunding					**(1,106)**	(845)
Total Homeownership Mortgage Program Bonds					**$ 1,203,391**	$ 1,397,393

(1) Term bonds are subject to mandatory redemption from mandatory sinking fund installments.

(2) Variable rate adjusted weekly based on the current market rate for similar tax exempt bonds.

The Authority issues certain Series of Bonds as variable rate interest debt in order to reduce its overall cost of funds and further its objective of providing affordable mortgage rates for homebuyers in the State. The Authority's variable rate Bonds are currently subject to optional tender on a weekly basis. Through standby bond purchase agreements, certain financial institutions (the "Liquidity Providers") have agreed to purchase such variable rate Bonds that have been tendered and cannot be remarketed. Variable rate Bonds purchased by a Liquidity Provider bear interest at various special negotiated interest rates and have accelerated principal payments over various special negotiated interest rates and have accelerated principal payments over various terms of years, as set forth in each such agreement.

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Single Family Mortgage Bonds require annual principal payments on May 1 of each year. Single Family Mortgage Bonds outstanding at June 30 are (in thousands):

			2012			2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
2010-1/2009-1A	2012-2041	3.425% - 4.24%	$ -	$ 94,895	**$ 94,895**	$ 98,545
2009 Series 1	2012	1.00%	-	-	**-**	88,100
2010-2/2009 1-B	2012-2041	.875%-4.5%	17,190	53,430	**70,620**	73,980
Drawdown 2010A-5	2011	0.75% (2)	-	-	**-**	10,750
Drawdown 2010A-6	2011	0.75% (2)	-	-	**-**	5,850
Drawdown 2010A-7	2011	0.75% (2)	-	-	**-**	7,850
Drawdown 2010A-8	2011	0.75% (2)	-	-	**-**	8,600
Drawdown 2010A-9	2011	0.75% (2)	-	-	**-**	13,850
2011-1/20091-C	2012-2041	.55%-5.0	15,735	58,260	**73,995**	-
2011-2/20091-D	2012-2041	.45%-4.25%	27,445	71,385	**98,830**	-
Plus unamortized premium					**1,946**	448
Total Single Family Mortgage Bonds					**$ 340,286**	$ 307,973

(1) Term bonds are subject to mandatory redemption from mandatory sinking fund installments.

(2) Warehousing bonds discussed below.

In December 2009, the Authority issued Single Family Mortgage Bonds 2009 Series 1 in the amount of $193,100,000. The bonds are limited obligations of the Authority secured by program obligations and by amounts on deposit in the Series 2009 1 Escrow Account. These bonds were issued and sold to the United States Treasury under the federal New Issue Bond Program. The proceeds of the bonds will be held in an escrow account until the short-term interest rate on the bonds is converted into a long-term fixed rate with the proceeds being used to buy mortgages. If the bonds have not been converted by December 31, 2011, they are subject to mandatory redemption on February 1, 2012. As of June 30, 2012 and 2011, $193,100,000 and 105,000,000, respectively, of the short-term rate bonds from the New Issue Bond Program had been converted to long-term rate bonds. The outstanding balance of these short-term bonds as of June 30, 2012 and 2011 was $0 and $88,100,000, respectively.

The Authority and Citibank, N.A. entered into a transaction on June 29, 2010, whereby Citibank, N.A., agreed to purchase up to $230,000,000 of the Authority's Single Family Mortgage Warehousing Bonds ("Warehousing Bonds"), the proceeds of which were used by the Authority to provide warehouse financing for Mortgage Loans prior to such Mortgage Loans being permanently financed by the issuance of Bonds pursuant to the Single Family Mortgage Bond Resolution. No more than $115,000,000 of such Warehousing Bonds could be outstanding at any time, any such Warehousing Bonds mature 180 days after their date of issuance, but not later than December 31, 2011 (or March 31, 2012 in certain cases), and such Warehousing Bonds accrued interest on a monthly basis equal to LIBOR plus 0.50%. Such Warehousing Bonds are general obligations of the Authority, secured by a pledge of any Mortgage Loans while financed thereunder. During 2012, the Authority issued $19,625,000 and repaid $66,525,000 of the Warehousing Bonds. During 2011, the Authority issued $80,375,000 and repaid $33,475,000 of the Warehousing Bonds. The outstanding balance of these short-term bonds as of June 30, 2012 and 2011 was $0 and $46,900,000, respectively.

Multiple Purpose Bonds require annual principal payments on November 1 of each year. Multiple Purpose Bonds outstanding at June 30 are (in thousands):

			2012			2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
2002 Series A	2012-2020	4.5% - 5.15%	$ 1,330	$ 14,210	**$ 15,540**	$ 18,495
2002 Series B	2012-2021	4.10% - 5.1%	2,970	5,425	**8,395**	10,440
2008 Series A	2012-2048	3.6%	-	7,160	**7,160**	7,240
2009 Series A	2012-2048	0.26% (2)	-	6,550	**6,550**	6,600
Less unamortized loss on refunding					**(569)**	(636)
Total Multiple Purpose Bonds					**$ 37,076**	$ 42,139

(1) Term bonds are subject to mandatory redemption from mandatory sinking fund installments.

(2) Variable rate adjusted weekly based on the current market rate for similar tax exempt bonds.

(continued on next page)

Multifamily Housing Revenue Bonds require annual principal payments on April 1 of each year. Multifamily Housing Revenue Bonds outstanding at June 30 are (in thousands):

			2012			2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
Series 2001	2031	0.19%	$ -	$ 6,495	**$ 6,495**	$ 6,495
Series 2001	2034	0.21%	-	13,000	**13,000**	13,000
Series 2002 A	2012-2033	4.15% - 5.35%	55	2,160	**2,215**	2,265
Series 2004 A	2012-2033	6.15%	2,855	-	**2,855**	2,917
Country Meadow	2044	0.18% (2)	-	4,920	**4,920**	4,920
Total Multifamily Housing Revenue Bonds					**$ 29,485**	$ 29,597

(1) Term bonds are subject to mandatory redemption from mandatory sinking fund installments.

(2) Variable rate adjusted weekly based on the current market rate for similar tax exempt bonds.

Multifamily Mortgage Pass-Through Bonds require monthly principal payments. Multifamily Mortgage Pass-Through Bonds outstanding at June 30 are (in thousands):

			2012		2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Term**	**Total Outstanding**	Total Outstanding
1996 Series B	2012	3.75%	1,247	**$ 1,247**	$ 1,278
Series 1999-1	2012-2015	4.0%	1,154	**1,154**	1,190
Series 1999-2	2012-2015	6.0%	1,227	**1,227**	1,275
Series 1999-3	2012-2015	6.0%	1,356	**1,356**	1,399
Series 2000-1	2012-2015	7.5%	695	**695**	713
Series 2002-1	2012-2017	7.0%	3,674	**3,674**	3,773
Total Multifamily Mortgage Pass-Through Bonds				**$ 9,353**	$ 9,628

Multifamily Risk Sharing Bonds require annual principal payments on July 1. Multifamily Risk Sharing Bonds outstanding at June 30 are (in thousands):

			2012			2011
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
Series 1999	2012-2040	5.75% - 5.8%	$ -	$ 2,900	**$ 2,900**	$ 2,940
Series 2000	2013-2032	5.85%	-	2,850	**2,850**	2,915
Series 2001	2013-2043	5.35%	-	7,225	**7,225**	7,300
Total Multifamily Risk Sharing Bonds					**$ 12,975**	$ 13,155
Total Bonds Outstanding					**$ 1,632,566**	$ 1,799,885

(1) Term bonds are subject to mandatory redemption from mandatory sinking fund installments.

Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2012 and 2011:

	Balance July 1, 2011	**Additions**	**Deductions**	**Balance June 30, 2012**	**Amounts Due Within One Year**
Homeownership Mortgage Program Bonds	**$ 1,388,260,000**	**$ 58,245,000**	**$ 251,300,000**	**$ 1,195,205,000**	**$ 37,510,000**
Single Family Mortgage Bonds	**307,525,000**	**194,625,000**	**163,810,000**	**338,340,000**	**6,775,000**
Multifamily Housing Trust Bonds	**42,775,000**	**-**	**5,130,000**	**37,645,000**	**3,340,000**
Multifamily Housing Revenue Bonds	**29,597,435**	**-**	**112,659**	**29,484,776**	**121,571**
Multifamily Mortgage Pass-Through Bonds	**9,627,761**	**-**	**274,087**	**9,353,674**	**1,505,416**
Multifamily Risk Sharing Bonds	**13,155,000**	**-**	**180,000**	**12,975,000**	**190,000**
Deferred Premium/Discount	**10,425,680**	**2,767,780**	**1,955,977**	**11,237,483**	**-**
Deferred Loss on Refunding	**(1,480,342)**	**161,714**	**356,174**	**(1,674,802)**	-
	$ 1,799,885,534	**$ 255,799,494**	**$ 423,118,897**	**$ 1,632,566,131**	**$ 49,441,987**

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	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
Homeownership Mortgage Program Bonds	$ 1,696,891,000	$ -	$ 308,631,000	$ 1,388,260,000	$ 44,455,000
Single Family Mortgage Bonds	233,100,000	155,375,000	80,950,000	307,525,000	138,040,000
Multifamily Housing Trust Bonds	45,380,000	-	2,605,000	42,775,000	2,715,000
Multifamily Housing Revenue Bonds	29,706,411	-	108,976	29,597,435	112,659
Multifamily Mortgage Pass-Through Bonds	9,886,449	-	258,688	9,627,761	274,086
Multifamily Risk Sharing Bonds	13,370,000	-	215,000	13,155,000	180,000
Deferred Premium/Discount	11,326,913	467,130	1,368,363	10,425,680	-
Deferred Loss on Refunding	(1,642,056)	161,714	-	(1,480,342)	-
	$ 2,038,018,717	$ 156,003,844	$ 394,137,027	$ 1,799,885,534	$ 185,776,745

Short-term debt is included in the above table with $0, and $135 million of short-term debt outstanding at June 30, 2012 and 2011, respectively.

The assets and revenues of the above indentures are pledged as collateral for the payment of principal and interest on their respective bonds. Required principal and interest payments are as follows:

Year Ended	Homeownership Mortgage Program Bonds		Single Family Mortgage Bonds		Multiple Purpose Bonds	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 37,510,000	$ 48,489,700	$ 6,775,000	$ 10,946,759	$ 3,340,000	$ 1,178,714
2014	36,500,000	47,368,778	6,895,000	10,854,838	2,885,000	1,041,088
2015	31,530,000	46,038,019	7,040,000	10,769,409	2,870,000	917,068
2016	35,245,000	44,982,903	7,200,000	10,553,183	2,595,000	788,637
2017	35,085,000	43,494,924	7,400,000	10,387,845	2,745,000	661,342
2018-2022	170,905,000	196,783,436	41,045,000	48,326,483	11,255,000	1,354,295
2032-2027	171,020,000	157,899,787	49,305,000	40,317,427	1,250,000	151,322
2028-2032	245,075,000	118,535,083	61,490,000	29,909,219	1,595,000	132,758
2033-2037	392,085,000	43,538,535	75,140,000	18,790,782	2,055,000	108,975
2038-2042	39,955,000	1,905,688	76,050,000	5,865,490	2,650,000	78,308
2043-2047	295,000	5,966	-	-	3,400,000	38,992
2048-2052	-	-	-	-	1,005,000	2,414
Total	$ 1,195,205,000	$ 749,042,819	$ 338,340,000	$ 196,721,435	$ 37,645,000	$ 6,453,913

Year Ended	Multifamily Housing Revenue Bonds		Multifamily Mortgage Pass-Through Bonds		Multifamily Risk Sharing Bonds	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 121,571	$ 339,038	$ 1,505,416	$ 494,343	$ 190,000	$ 719,692
2014	125,729	332,181	274,748	471,501	205,000	708,874
2015	135,145	324,746	4,235,532	342,775	215,000	697,351
2016	144,838	316,832	129,048	229,570	230,000	685,125
2017	149,823	308,315	3,208,931	167,575	240,000	672,195
2018-2022	910,501	1,397,080	-	-	1,465,000	3,136,992
2023-2027	1,211,083	1,095,788	-	-	1,975,000	2,669,550
2028-2032	8,100,543	676,806	-	-	2,795,000	2,036,343
2033-2037	13,665,543	144,396	-	-	2,205,000	1,297,603
2038-2042	-	44,280	-	-	2,735,000	615,535
2043-2046	4,920,000	14,022	-	-	720,000	38,520
	$ 29,484,776	$ 4,993,484	$ 9,353,675	$ 1,705,764	$ 12,975,000	$ 13,277,780

Note 6 - Refunding of Debt:

In June 2012, the Authority issued $58,245,000 of fixed rate Homeownership Mortgage Bonds, 2012 Series A, 2012 Series B, and 2012 Series C (the "2012 ABC Bonds"). The 2012 Series A and 2012 Series B bonds, totaling $47,300,000, along with premium generated from the bond sale, were used to refund $48,460,000 of Homeownership Mortgage Bonds, 1997 Series C, 1997 Series D, 1997 Series E, 2002 Series C, 2002 Series F, 2002 Series G, 2002 Series H, and 2002 Series I (the "Refunded Bonds"). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2012 ABC Bonds and the Refunded Bonds, net of costs of issuance and negative arbitrage, will result in an economic gain of approximately $3,151,142. In addition, the refunding generated $8,200,000 of zero participation loans for use in blending with future bond issues.

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Note 7 - Interest Rate Swaps:

Swap Objectives:

The Authority has entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps are to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Authority's goal of lending to low- and moderate-income first-time home buyers at below market fixed interest rates.

Swap Terms:

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2012 and 2011, are contained in the table below. The initial notional amounts of the swaps match the initial principal amounts of the associated debt. Current notional amounts may or may not match the current principal outstanding on the debt, which could result in unhedged variable rate debt or making interest payments on debt no longer outstanding (see amortization risk). The Authority has purchased the right to terminate the outstanding swap balances at par value on dates that are generally ten years after the date of issuance of the related bonds.

Bond Series	Current Notional Amount	Effective/ Termination Date	Fixed Rate	Variable Rate Receivable	Counterparty Credit Rating*	Fair Value June 30, 2012	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2012	Fair Value June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
Merrill Lynch Capital Services									
2003 C-1	$ 26,500,000	6/18/2004 5/1/2013	3.40%	57% of LIBOR plus 0.42%	Baa2	**$ (743,901)**	$ 659,579	$ (1,403,480)	$ 313,733
2005 D	6,925,000	4/13/2005 5/1/20015	3.29%	57.3% of LIBOR plus 0.40%	Baa2	**(541,494)**	19,777	(561,271)	19,722
2007 I	34,000,000	10/16/2007 5/1/2038	4.14%	63.8% of LIBOR plus 0.30%	Baa2	**(5,241,769)**	(1,837,786)	(3,403,983)	573,158
JPMorgan Chase Bank, N.A.									
2004 G	33,000,000	10/20/2004 5/1/2034	3.90%	63.4% of LIBOR plus 0.29%	Aa3	**(2,363,456)**	(453,217)	(1,910,239)	423,034
2005 C	41,000,000	4/13/2005 5/1/2035	3.93%	63.3% of LIBOR plus 0.30%	Aa3	**(3,509,107)**	(850,328)	(2,658,779)	556,361
2008 F	34,000,000	9/4/2008 5/3/2039	3.85%	63.7% of LIBOR plus 0.31%	Aa3	**(5,105,004)**	(2,481,314)	(2,623,690)	659,651
The Bank of New York, Mellon, N.A. (Novated from UBS on 7/22/2010)									
2003 F	13,000,000	6/21/2005 5/1/2034	3.76%	63.8% of LIBOR plus 0.29%	Aa2	**(538,163)**	(44,467)	(493,696)	167,989
2003 I	28,000,000	6/21/2005 5/1/2034	3.76%	63.8% of LIBOR plus 0.29%	Aa2	**(1,155,286)**	(104,358)	(1,050,928)	367,782
2004 C	34,000,000	6/21/2005 5/1/2034	3.75%	63.8% of LIBOR plus 0.29%	Aa2	**(1,823,757)**	(408,035)	(1,415,722)	435,716
Bank of America, N.A.									
2009 C	22,000,000	11/18/2009 5/1/2039	3.14%	64% of LIBOR plus 0.22%	A3	**(2,463,981)**	(2,155,983)	(307,998)	500,025
Merrill Lynch Derivative Products, AG									
2005 G	25,000,000	7/19/2005 5/1/2035	3.77%	63.8% of LIBOR plus 0.29%	Aa3	**(2,237,546)**	(922,720)	(1,314,826)	357,688
2006 C	45,000,000	6/14/2006 5/1/2037	4.42%	64% of LIBOR plus 0.29%	Aa3	**(5,988,232)**	(1,232,834)	(4,755,398)	662,258
2008 C	43,575,000	3/26/2008 5/1/2039	3.42%	63.7% of LIBOR plus 0.30%	Aa3	**(4,341,217)**	(2,553,797)	(1,787,420)	805,688
MPB 2008 A	7,160,000	8/2/2008 5/1/2048	3.55%	63.8% of LIBOR plus 0.20%	Aa3	**(939,614)**	(502,325)	(437,289)	139,373
	$ 393,160,000					**$ (36,992,527)**		$ (24,124,719)	

**Moody's Investor Service*

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Fair Value:

The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Authority based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations determine the current fair value of the Authority's swap contracts. The fair values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2012 and 2011. A positive fair value represents money due the Authority by the counterparty upon termination of the swap, while a negative fair value represents money payable by the Authority.

Swap Risks:

Credit Risk: The terms of the swaps expose the Authority to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Authority's current credit exposure to the counterparty with which the swaps were executed. The Authority has credit risk exposure to its counterparties when the swap position has a positive value. Several of the swap agreements require that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral thresholds are based on the prevailing ratings, as determined by Moody's and S&P, of each counterparty, in the case of the counterparties, or the hedged bonds, in the case of the Authority. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2012 and 2011, neither the Authority nor any counterparty had been required to post collateral.

Basis Risk: The Authority incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Authority pays the actual variable rate on its bonds, but under the terms of its swaps receives a variable rate based upon the one month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. For the years ended June 30, 2012 and 2011, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 1.75% and 1.970% per annum, respectively, while the weighted average interest rate on the swaps was 1.75% and 1.931% per annum, respectively. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between variable tax exempt rates and the one month, taxable LIBOR rate.

Termination Risk: The Authority's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Authority are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Authority's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Authority actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Amortization Risk: The Authority may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Authority to manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Authority may terminate the swaps at market value at any time. As of June 30, 2012, outstanding debt principal exceeds current swap notional amounts by $6,425,000.

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Tax Risk: The structure of the variable interest rate payments the Authority receives from its swap contracts are based upon the historical long-term relationship between taxable and tax exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Authority has chosen to assume this risk because it was not economically feasible to transfer to the swap counterparty.

Concentration Risk: The total outstanding notional amount of swaps with a single counterparty will not exceed $150,000,000.

Swap Payments and Associated Debt: As rates vary, variable-rate bond interest payments and net swap payments will vary. Debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows using rates as of June 30, 2012:

Year Ended June 30	Variable Rate Bond Principal	Variable Rate Bond Interest	Interest Rate Swap - Net	Total
2013	$ 90,000	$ 924,163	$ 13,003,002	$ 14,017,165
2014	90,000	923,929	12,303,642	13,317,571
2015	95,000	923,695	12,203,923	13,222,618
2016	100,000	923,441	11,981,044	13,004,485
2017	100,000	923,181	11,920,468	12,943,649
2018-2022	585,000	4,611,667	59,480,389	64,677,056
2023-2027	3,040,000	4,602,938	59,370,323	67,013,261
2028-2032	118,245,000	4,217,800	54,276,421	176,739,221
2033-2037	243,915,000	2,437,118	34,005,597	280,357,715
2038-2042	31,280,000	110,835	1,542,323	32,933,158
2043-2047	1,670,000	17,206	211,464	1,898,670
2048-2051	375,000	732	9,027	384,759
	$ 399,585,000	$ 20,616,705	$ 270,307,623	$ 690,509,328

Rollover Risk: Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt. When the swap terminates, the associated debt will no longer have the benefit of the swap. The Authority is exposed to rollover risk on the following debt:

Bond Series	Debt Maturity Date	Swap Termination Date
2003 C-1	May 1, 2032	May 1, 2013
2005 D	May 1, 2031	May 1, 2015

Note 8 - Net Assets:

The State has pledged to and agreed with Bondholders that it will not limit or alter the rights vested in the Authority to fulfill the terms of any agreements made with them, or in any way impair the rights and remedies of the Bondholders, until the bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of such Bondholders, are fully met and discharged. The net assets of the indentures other than the General Operating Account are therefore restricted under the terms of the bond resolutions. The Authority may, however, subject to the provisions as defined in bond resolutions, transfer surplus earnings to the General Reserve Account in the General Operating Account. The Authority covenants that it will use money in the General Reserve Account only for the administration and financing of programs in accordance with the policy and purpose of the Act, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose.

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Sub Accounts of the General Operating Account, established as part of the General Reserve Account on the basis of specified guidelines, are restricted at June 30 as follows:

	2012	2011
Bond and notes reserve	**$ 3,927,975**	$ 4,346,400
Program operations reserve	**3,161,864**	2,497,954
Total	**$ 7,089,839**	$ 6,844,354

Note 9 - Commitments:

As of June 30, 2012, the Authority had the following Homeownership Mortgage Program commitments:

- Commitments to fund the Homeownership Mortgage Program aggregating $9,233,002.

Note 10 - Segment Information:

The Authority issues bonds to finance the purchase of single family homes and multifamily developments. The bond programs are accounted for in a single enterprise fund, but investors in those bonds rely on the revenue generated by the activities within the individual bond indentures. Summary financial information as of and for the year ended June 30, 2012 and 2011, for the Homeownership Mortgage Program Bonds, Single Family Mortgage Bonds and the Multiple Family Housing Trust Bonds follows:

	2012			2011		
	Homeownership Mortgage Bonds	**Single Family Mortgage Bonds**	**Multifamily Housing Trust Bonds**	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multifamily Housing Trust Bonds
Condensed Statement of Net Assets						
Assets						
Interfund receivables (payables)	**$ 33,360,711**	**$ (20,551,022)**	**$ (84,944)**	$ 41,470,234	$ (28,938,654)	$ (83,372)
Current assets	**178,896,233**	**56,146,483**	**20,319,214**	225,088,332	112,185,276	27,316,005
Noncurrent assets	**1,382,135,831**	**310,313,226**	**76,870,269**	1,498,991,387	228,900,819	72,442,414
Total Assets	**$ 1,594,392,775**	**$ 345,908,687**	**$ 97,104,539**	$ 1,765,549,953	$ 312,147,441	$ 99,675,047
Liabilities and Net Assets						
Current liabilities	**$ 45,633,828**	**$ 8,658,332**	**$ 3,545,621**	$ 54,476,277	$ 139,007,895	$ 2,979,267
Noncurrent liabilities	**1,202,930,852**	**333,510,613**	**34,675,394**	1,379,478,132	169,933,304	39,861,598
Total Liabilities	**1,248,564,680**	**342,168,945**	**38,221,015**	1,433,954,409	308,941,199	42,840,865
Net Assets						
Invested in capital assets, net of related debt	**-**	**-**	**(1,037,776)**	-	-	(829,310)
Restricted by bond indentures	**345,828,095**	**3,739,742**	**59,921,300**	331,595,544	3,206,242	57,663,492
Total Liabilities and Net Assets	**$ 1,594,392,775**	**$ 345,908,687**	**$ 97,104,539**	$ 1,765,549,953	$ 312,147,441	$ 99,675,047
Condensed Statement of Revenues, Expenses, and Changes in Net Assets						
Operating revenues	**$ 75,441,961**	**$ 13,671,399**	**$ 3,751,347**	$ 80,244,387	$ 7,895,212	$ 3,900,824
Operating expenses	**60,507,558**	**11,940,668**	**1,730,378**	69,920,682	5,627,936	2,798,136
Operating income	**14,934,403**	**1,730,731**	**2,020,969**	10,323,705	2,267,276	1,102,688
Transfers in (out)	**(701,852)**	**(1,197,231)**	**28,373**	(39,589)	(806,584)	-
Change in net assets	**14,232,551**	**533,500**	**2,049,342**	10,284,116	1,460,692	1,102,688
Beginning net assets	**331,595,544**	**3,206,242**	**56,834,182**	321,311,428	1,745,550	55,731,494
Ending net assets	**$ 345,828,095**	**$ 3,739,742**	**$ 58,883,524**	$ 331,595,544	$ 3,206,242	$ 56,834,182
Condensed Statement of Cash Flows						
Net cash provided (used) by:						
Operating activities	**$ 287,593,733**	**$ (76,617,522)**	**$ 4,302,981**	$ 231,971,632	$ (118,805,724)	$ 5,389,449
Noncapital financing activities	**(250,331,966)**	**20,267,751**	**(6,852,808)**	(376,609,179)	69,348,653	(4,531,110)
Capital and related financing activities	**-**	**-**	**(14,719)**	-	-	(33,952)
Investing activities	**(64,432,343)**	**(4,975,941)**	**3,235,106**	154,685,027	(5,065,575)	(1,099,811)
Net change	**(27,170,576)**	**(61,325,712)**	**670,560**	10,047,480	(54,522,646)	(275,424)
Beginning cash and cash equivalents	**131,973,108**	**99,744,727**	**2,744,293**	121,925,628	154,267,373	3,019,717
Ending cash and cash equivalents	**$ 104,802,532**	**$ 38,419,015**	**$ 3,414,853**	$ 131,973,108	$ 99,744,727	$ 2,744,293

(continued on next page)

Note 11 - Pension Plan:

Plan Description:

The Authority contributes to the South Dakota Retirement System (SDRS), a cost sharing multiple employer defined benefit pension plan. SDRS provides retirement, disability and survivor benefits to plan members and beneficiaries. SDCL Chapter 3-12 outlines the benefits and provisions of the plan.

Plan Administration:

Administration of the plan is assigned to the Board of Trustees of SDRS. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information for SDRS. Their financial report may be obtained by writing directly to South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501, or by calling SDRS at (605) 773-3731.

Funding Policy:

Plan members are required to contribute 6% of their annual covered salary and the Authority is required to match an additional 6%. These rates are based on actuarial determinations to provide a contribution requirement equal to the contributions made. The contribution requirements are established and may be amended by the SDRS Board of Trustees. The Authority's contributions to SDRS were $171,138, $170,633, and $175,477 for the years ended June 30, 2012, 2011, and 2010, respectively.

Note 12 - Contingencies:

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material adverse effect upon the financial position of the Authority.

Note 13 - Risk Management:

The Authority 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. During the years ended June 30, 2012 and 2011, the Authority managed its risks as follows:

The Authority purchased, from a commercial carrier, health insurance for its employees; liability insurance for risks related to torts, theft or damage of property, errors and omissions of public officials; and liability insurance for workmen's compensation. The Authority provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

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Note 14 - Capital Assets

	Beginning Balance July 1, 2011	Increase	Decrease	Ending Balance June 30, 2012
Capital assets not depreciated				
Land	$ 220,409	$ -	$ -	$ 220,409
Total capital assets not depreciated	220,409	-	-	220,409
Capital assets depreciated				
Buildings	4,949,532	-	-	4,949,532
Land improvements	1,210,115	-	-	1,210,115
Furniture and equipment	3,379,722	361,336	184,330	3,556,728
Total capital assets depreciated	9,539,369	361,336	184,330	9,716,375
Total capital assets	9,759,778	361,336	184,330	9,936,784
Less accumulated depreciation for:				
Buildings	333,974	125,731	-	459,705
Land improvements	430,677	57,028	-	487,705
Furniture and equipment	2,445,926	212,504	178,448	2,479,982
Total accumulated depreciation	3,210,577	395,263	178,448	3,427,392
Capital assets, net	$ 6,549,201	$ (33,927)	$ 5,882	$ 6,509,392

	Beginning Balance July 1, 2010	Increase	Decrease	Ending Balance June 30, 2011
Capital assets not depreciated				
Land	$ 220,409	$ -	$ -	$ 220,409
Total capital assets not depreciated	220,409	-	-	220,409
Capital assets depreciated				
Buildings	4,949,532	-	-	4,949,532
Land improvements	1,210,115	-	-	1,210,115
Furniture and equipment	3,356,882	113,312	90,472	3,379,722
Total capital assets depreciated	9,516,529	113,312	90,472	9,539,369
Total capital assets	9,736,938	113,312	90,472	9,759,778
Less accumulated depreciation for:				
Buildings	208,241	125,733	-	333,974
Land improvements	373,642	57,035	-	430,677
Furniture and equipment	2,325,093	211,305	90,472	2,445,926
Total accumulated depreciation	2,906,976	394,073	90,472	3,210,577
Capital assets, net	$ 6,829,962	$ (280,761)	$ -	$ 6,549,201

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Note 15 - Accounts Payable and Other Accruals:

Payables at June 30, 2012 and 2011 were as follows:

	2012	2011
Accounts Payable		
Contractual	$ 187,007	$ 153,381
Travel/moving costs	11,389	17,089
Office	5,140	15,952
Marketing	68,523	46,212
Maintenance	4,223	23,227
Housing grants	800	-
Capital assets	-	-
Deferred financing costs	101,191	5,402
General	65	1,355
FICA	27,520	-
Prepaid sales	36,781	132,735
Excise tax	6,086	8,471
Materials/tools	102,186	77,111
Total accounts payable	550,911	480,935
Arbitrage rebate	996,652	2,852,977
Accrued vacation	527,027	512,917
Accrued salaries	-	120,431
Employee withholdings	14,007	150
EMAP payable	26,238	41,398
Servicing fee	271,097	300,103
Estes Park	98,796	98,796
Total accounts payable and other accruals	2,484,728	4,407,707
Current liabilities	(1,488,076)	(1,554,730)
Noncurrent liabilities	$ 996,652	$ 2,852,977

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Supplementary Information
June 30, 2012

South Dakota Housing Development Authority

Supplemental Schedule of Net Assets — *As of June 30, 2012*

Assets	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Mortgage Pass-Through Bonds	Multifamily Risk Sharing Bonds	Combined Total
Current Assets								
Cash and cash equivalents	$ 4,443,129	$ 104,802,532	$ 38,419,015	$ 3,414,853	$ 1,683,710	$ -	$ 403,856	**$ 153,167,095**
Investment securities - other	251,303	11,651,164	397,046	13,248,586	175,320	-	-	**25,723,419**
Investments - program mortgage-backed securities	-	97,893	-	-	-	-	-	**97,893**
Mortgage loans receivable, net	3,167,221	54,099,262	16,121,786	3,058,688	-	-	-	**76,446,957**
Guaranteed mortgage securities	-	-	-	-	347,602	1,505,416	185,038	**2,038,056**
Interest receivable	250,240	8,245,382	1,208,636	597,087	6,760	-	74,405	**10,382,510**
Other receivables	245,139	-	-	-	-	-	-	**245,139**
Other assets	2,063,300	-	-	-	-	-	-	**2,063,300**
Total Current Assets	10,420,332	178,896,233	56,146,483	20,319,214	2,213,392	1,505,416	663,299	**270,164,369**
Noncurrent Assets								
Investment securities - other	17,874,996	412,633,897	10,155,163	40,815,079	268,590	-	619,166	**482,366,891**
Investments - program mortgage-backed securities	-	1,859,966	-	-	-	-	-	**1,859,966**
Mortgage loans receivable, net	68,789,272	921,636,546	297,124,308	29,238,559	-	-	-	**1,316,788,685**
Guaranteed mortgage securities	-	-	-	-	27,572,997	7,848,259	12,309,222	**47,730,478**
Other receivables	-	1,413,464	-	-	-	-	-	**1,413,464**
Furniture and equipment, net	490,583	-	-	586,163	-	-	-	**1,076,746**
Building, net	165,715	-	-	4,324,112	-	-	-	**4,489,827**
Land Improvement, net	70,461	-	-	651,949	-	-	-	**722,410**
Land	220,409	-	-	-	-	-	-	**220,409**
Deferred swap outflow	-	36,052,913	-	939,614	-	-	-	**36,992,527**
Deferred financing costs, net	-	8,539,045	3,033,755	314,793	123,113	-	-	**12,010,706**
Due from (to) other funds	(12,710,745)	33,360,711	(20,551,022)	(84,944)	(9,000)	-	(5,000)	**-**
Total Noncurrent Assets	74,900,691	1,415,496,542	289,762,204	76,785,325	27,955,700	7,848,259	12,923,388	**1,905,672,109**
Total Assets	85,321,023	1,594,392,775	345,908,687	97,104,539	30,169,092	9,353,675	13,586,687	**2,175,836,478**
Liabilities								
Current Liabilities								
Bonds payable	-	37,510,000	6,775,000	3,340,000	121,571	1,505,416	190,000	**49,441,987**
Accrued interest payable	-	7,901,814	1,808,011	205,621	124,551	-	217,682	**10,257,679**
Accounts payable and other liabilities	1,091,945	222,014	75,321	-	-	-	98,796	**1,488,076**
Multifamily escrows and reserves	16,834,056	-	-	-	254,858	-	132,680	**17,221,594**
Total Current Liabilities	17,926,001	45,633,828	8,658,332	3,545,621	500,980	1,505,416	639,158	**78,409,336**
Noncurrent Liabilities								
Bonds payable	-	1,165,881,287	333,510,613	33,735,780	29,363,205	7,848,259	12,785,000	**1,583,124,144**
Accounts payable and other liabilities	-	996,652	-	-	-	-	-	**996,652**
Fair value of interest rate swap agreements	-	36,052,913	-	939,614	-	-	-	**36,992,527**
Total Noncurrent Liabilities	-	1,202,930,852	333,510,613	34,675,394	29,363,205	7,848,259	12,785,000	**1,621,113,323**
Total Liabilities	17,926,001	1,248,564,680	342,168,945	38,221,015	29,864,185	9,353,675	13,424,158	**1,699,522,659**
Net Assets								
Invested in capital assets, net of related debt	947,168	-	-	(1,037,776)	-	-	-	**(90,608)**
Restricted by bond indentures	6,142,671	345,828,095	3,739,742	59,921,300	304,907	-	162,529	**416,099,244**
Restricted by HOME and NSP Program	60,305,183	-	-	-	-	-	-	**60,305,183**
Total Net Assets	$ 67,395,022	$ 345,828,095	$ 3,739,742	$ 58,883,524	$ 304,907	$ -	$ 162,529	**$ 476,313,819**

Supplemental Schedule of Operations and Changes in Net Assets — *As of June 30, 2012*

Operating Revenues	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Mortgage Pass-Through Bonds	Multifamily Risk Sharing Bonds	Combined Total
Interest income on mortgage loans and guaranteed mortgage securities	$ 311,798	$ 57,136,083	$ 13,298,725	$ 2,151,196	415,602	532,155	697,619	**$ 74,543,178**
Earnings on investments and program mortgage-backed securities	268,143	14,739,856	312,389	2,003,380	20,127	-	34,291	**17,378,186**
Net increase/(decrease) in fair value of investments	(74,505)	3,564,721	60,285	(424,974)	(10,702)	-	-	**3,114,825**
HUD contributions	35,697,995	-	-	-	-	-	-	**35,697,995**
Other federal contributions	1,056,554	-	-	-	-	-	-	**1,056,554**
Fee, grant and other income	4,760,913	1,301	-	21,745	-	-	-	**4,783,959**
Total Operating Revenues	42,020,898	75,441,961	13,671,399	3,751,347	425,027	532,155	731,910	**136,574,697**
Operating Expenses								
Interest	-	54,011,207	10,445,085	1,726,725	362,540	532,155	726,404	**67,804,116**
Housing assistance payments	24,516,872	-	-	-	-	-	-	**24,516,872**
Servicer fees	-	3,140,767	1,039,671	-	-	-	-	**4,180,438**
Arbitrage rebate benefit	-	(1,495,250)	-	-	-	-	-	**(1,495,250)**
General and administrative	4,809,813	359,457	135,993	451,568	7,872	-	-	**5,764,703**
Amortization of deferred financing costs	-	2,030,130	250,381	107,254	6,588	-	-	**2,394,353**
Other housing programs	9,159,251	60,000	-	16,213	-	-	-	**9,235,464**
Provision for loan loss	116,895	2,401,247	69,538	(571,382)	-	-	-	**2,016,298**
Total Operating Expenses	38,602,831	60,507,558	11,940,668	1,730,378	377,000	532,155	726,404	**114,416,994**
Net Income Before Interfund Transfers	3,418,067	14,934,403	1,730,731	2,020,969	48,027	-	5,506	**22,157,703**
Interfund Transfers	1,870,710	(701,852)	(1,197,231)	28,373	-	-	-	**-**
Changes in Net Assets	5,288,777	14,232,551	533,500	2,049,342	48,027	-	5,506	**22,157,703**
Net Assets, Beginning of Year	62,106,245	331,595,544	3,206,242	56,834,182	256,880	-	157,023	**454,156,116**
Net Assets, End of Year	$ 67,395,022	$ 345,828,095	$ 3,739,742	$ 58,883,524	$ 304,907	$ -	$ 162,529	**$ 476,313,819**

See Accompanying Independent Auditor's Report.