**FINANCIAL REPORT**
**JUNE 30, 2008 AND 2007**

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

**SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY**

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# INDEPENDENT AUDITOR'S REPORT

To 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, 2008 and 2007, 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 audits 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, 2008 and 2007, 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 31, 2008 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.

Management's Discussion and Analysis on pages 3 - 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of **South Dakota Housing Development Authority** for the years ended June 30, 2008 and 2007, taken as a whole. The supplementary information set forth on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Aberdeen, South Dakota
October 31, 2008

This section of the South Dakota Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2008 (FY 2008). 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 its bonds and notes to obtain funds to purchase mortgage loans to be originated by mortgage lenders and to make mortgage loans to individuals for 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. In addition, 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.

## Financial Highlights

- Total assets of the Authority increased $121.9 million (or 5.5%) as of June 30, 2008
- Total liabilities of the Authority increased $86.6 million (or 4.7%) as of June 30, 2008
- Net assets of the Authority increased $35.2 million (or 10.0%) as of June 30, 2008
- Cash and cash equivalents of the Authority decreased $53.6 million (or 21.7%) as of June 30, 2008
- Investments in securities increased $12.9 million (or 2.2%) as of June 30, 2008
- Mortgage loans receivable increased $160.0 million (or 12.3%) as of June 30, 2008
- Debt outstanding of the Authority increased $87.1 million (or 4.8%) as of June 30, 2008

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### Changes in Net Assets
(in millions of dollars)

| | FY 2008 | FY 2007 | % Change |
|---|---|---|---|
| Revenues: | | | |
| Interest on mortgages | $ 74.7 | $ 66.1 | 13.0% |
| Investment income | 43.7 | 38.8 | 12.6% |
| Increase in fair market value of investments | 9.7 | 5.6 | 73.2% |
| Other income | 35.1 | 37.8 | (7.1)% |
| Total revenues | 163.2 | 148.3 | 10.0% |
| Expenses: | | | |
| Interest | 85.7 | 77.6 | 10.4% |
| Servicer fees | 6.9 | 5.8 | 19.0% |
| General and administrative | 5.6 | 5.5 | 1.8% |
| Other | 29.8 | 31.4 | (5.1)% |
| Total expenses | 128.0 | 120.3 | 6.4% |
| Change in net assets | $ 35.2 | $ 28.0 | 25.7% |

**Analysis:**

Interest on mortgages increased during the year as a result of an increase in mortgage loans outstanding. Investment income increased as a result of an increased average monthly balance of cash equivalents and investments. Investment balances increased and cash equivalents decreased as funds were moved to higher yielding, longer term securities.

The net increase in fair market value of investment securities in the amount of $4.1 million was recorded as a result of the rise in market value of investments. This is in comparison to a net increase of $17.3 million recorded in fiscal year 2007. Investment yields were generally lower towards the end of fiscal year 2008, resulting in the increase in market value of investments that were acquired in previous periods at higher yields.

Interest expense on bonds increased 10.4% to $85.7 million as a result of increases in bonds outstanding.

Changes in net assets increased $35.2 million in 2008 compared to $28.0 million in fiscal year 2007.

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## Financial Statement Elements

### Changes in Assets and Liabilities
(in millions of dollars)

| | FY 2008 | FY 2007 | % Change |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 192.9 | $ 246.5 | (21.7)% |
| Investments | 592.0 | 579.2 | 2.2% |
| Mortgages and securities | 1,515.2 | 1,356.0 | 11.7% |
| Interest receivable | 14.9 | 11.8 | 26.3% |
| Deferred costs | 13.4 | 12.5 | 7.2% |
| Capital assets | 1.5 | 1.3 | 15.4% |
| Other | 4.7 | 5.4 | (13.0)% |
| Total assets | 2,334.6 | 2,212.7 | 5.5% |
| Liabilities: | | | |
| Current bonds payable | 135.1 | 231.2 | (41.6)% |
| Interest payable | 12.9 | 13.8 | 6.2% |
| Other | 27.8 | 27.4 | 1.5% |
| Noncurrent bonds payable | 1,771.3 | 1,588.1 | 11.5% |
| Total liabilities | 1,947.1 | 1,860.5 | (4.7)% |
| Net assets: | | | |
| Unrestricted | 0.0 | 0.0 | - |
| Invested in capital assets | 1.5 | 1.3 | 15.4% |
| Restricted by bond indentures | 343.6 | 311.2 | 10.4% |
| Restricted by HOME program | 42.4 | 39.7 | 6.8% |
| Total net assets | $ 387.5 | $ 352.2 | 10.0% |

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## Debt Administration

The Authority is authorized to issue debt to purchase or originate mortgage loans on single family and multifamily residential properties. As of June 30, 2008, the Authority had $1,906.4 million in bonds outstanding, a 4.8% increase over the previous year.

The Authority issued a total of $487.2 million in bonds in fiscal year 2008. Of that total, $200 million was issued as long term debt for the origination of single family loans, $200 million was issued as short term debt for the purpose of preserving bonding authority and $87.2 million was issued as debt for the refunding of bonds from prepayments and excess reserves.

The Authority retired or paid at maturity a total of $397.7 million in bonds in fiscal year 2008. $171.5 million was redeemed from prepayments and excess reserves and $226.2 million was maturing principal.

The Authority's Homeownership Mortgage Bonds are rated AAA by Standard and Poor's, and Aa1 by Moody's Investor Service. The Authority's Multiple Purpose Bonds are insured by Financial Security Assurance, Inc. and are therefore rated Aaa by Moody's Investor Service. Moody's Investors Service has given the Authority an Issuer Rating of Aa3. Bond ratings have not changed since issuance.

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

## Economic Environment

Deteriorating conditions in the national and international credit markets may impact the Authority's ability to issue debt and have caused the interest rate on variable rate bonds to deviate from levels anticipated by hedging transactions. The Authority is continuously monitoring the situation and will take action as needed.

## Contacting the Authority's Management

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, 221 South Central Ave, Pierre, South Dakota 57501-1237

## *Statements of Net Assets* — *As of June 30*

| ***Assets*** | **2008** | 2007 |
|---|---|---|
| ***Current Assets*** | | |
| Cash and cash equivalents (Note 3) | **$ 192,902,720** | $ 246,472,932 |
| Investment in securities (Note 3) | **139,756,847** | 233,640,072 |
| Mortgage loans receivable (Note 4) | **76,005,473** | 66,672,086 |
| Guaranteed mortgage securities | **1,615,343** | 780,311 |
| Interest receivable | **14,874,010** | 11,821,701 |
| Other receivables | **657,644** | 821,266 |
| Other assets | **2,423,278** | 2,112,482 |
| ***Total Current Assets*** | **428,235,315** | 562,320,850 |
| ***Noncurrent Assets*** | | |
| Investment in securities (Note 3) | **452,279,160** | 345,540,463 |
| Mortgage loans receivable (Note 4) | **1,389,345,562** | 1,238,701,248 |
| Guaranteed mortgage securities | **48,210,088** | 49,828,015 |
| Other receivables | **1,580,232** | 2,429,174 |
| Furniture and equipment, at cost, less accumulated depreciation | **928,753** | 1,082,557 |
| Construction in progress | **367,537** | - |
| Land | **220,409** | 220,409 |
| Deferred financing costs, net | **13,445,301** | 12,610,116 |
| ***Total Noncurrent Assets*** | **1,906,377,042** | 1,650,411,982 |
| ***Total Assets*** | **2,334,612,357** | 2,212,732,832 |
| ***Liabilities*** | | |
| ***Current Liabilities*** | | |
| Bonds payable (Notes 5 and 6) | **135,228,921** | 231,185,915 |
| Accrued interest payable | **12,937,346** | 13,793,773 |
| Accounts payable and other liabilities | **2,342,389** | 3,362,258 |
| Multifamily escrows and reserves | **20,882,097** | 21,478,484 |
| ***Total Current Liabilities*** | **171,390,753** | 269,820,430 |
| ***Noncurrent Liabilities*** | | |
| Bonds payable (Notes 5 and 6) | **1,771,168,311** | 1,588,155,085 |
| Accounts payable and other liabilities | **4,574,752** | 2,512,385 |
| ***Total Noncurrent Liabilities*** | **1,775,743,063** | 1,590,667,470 |
| ***Total Liabilities*** | **1,947,133,816** | 1,860,487,900 |
| ***Net Assets*** | | |
| Unrestricted | **-** | - |
| Invested in Capital Assets | **1,516,699** | 1,302,966 |
| Restricted by Bond Indentures | **343,607,175** | 311,264,899 |
| Restricted by HOME Program | **42,354,667** | 39,677,067 |
| ***Total Net Assets*** | **$ 387,478,541** | $ 352,244,932 |

## *Statements of Revenues, Expenses, and Changes in Net Assets*

***For the Years Ended June 30***

| *Operating Revenues* | | **2008** | | 2007 |
|---|---|---|---|---|
| Interest income on mortgage loans | **$** | **74,656,280** | $ | 66,124,877 |
| Interest on guaranteed mortgage securities | | **2,345,342** | | 2,370,740 |
| Interest on investments | | **41,378,511** | | 36,441,101 |
| Net increase in the fair market value of investments | | **9,741,463** | | 5,572,817 |
| HUD contributions | | **26,245,883** | | 27,654,203 |
| Other income | | **8,830,437** | | 10,121,569 |
| ***Total Operating Revenues*** | | **163,197,916** | | 148,285,307 |
| ***Operating Expenses*** | | | | |
| Interest | | **85,727,708** | | 77,607,580 |
| Housing assistance payments | | **22,538,256** | | 21,938,181 |
| Servicer and other fees | | **6,835,731** | | 5,819,743 |
| General and administrative | | **5,595,548** | | 5,461,212 |
| Amortization of deferred financing costs | | **2,276,635** | | 3,132,970 |
| Other housing programs | | **4,990,429** | | 6,288,770 |
| ***Total Operating Expenses*** | | **127,964,307** | | 120,248,456 |
| Change in net assets | | **35,233,609** | | 28,036,851 |
| Net Assets, beginning of year | | **352,244,932** | | 324,208,081 |
| ***Net Assets, end of year*** | **$** | **387,478,541** | $ | 352,244,932 |

## Statements of Cash Flows

**For the Years Ended June 30**

| | 2008 | 2007 |
|---|---|---|
| ***Cash Flows From Operating Activities*** | | |
| Receipts from loan payments | **$ 217,698,056** | $ 202,845,788 |
| Receipts for program fees | **9,843,001** | 9,462,868 |
| Receipts from federal housing programs | **26,245,883** | 27,654,203 |
| Payments for loan programs | **(303,943,473)** | (279,508,559) |
| Payments for operating expenses | **(8,963,865)** | (7,739,872) |
| Payments to employees | **(3,250,305)** | (3,160,638) |
| Payments for federal housing programs | **(22,538,256)** | (21,938,181) |
| Payments for other housing programs | **(5,133,365)** | (4,497,695) |
| ***Net Cash Used in Operating Activities*** | **(90,042,324)** | (76,882,086) |
| ***Cash Flows From Noncapital Financing Activities*** | | |
| Proceeds from sale of bonds | **490,575,335** | 584,857,417 |
| Principal paid on bonds | **(400,648,999)** | (584,601,119) |
| Interest paid on bonds | **(89,454,238)** | (81,321,507) |
| Bond issuance costs paid | **(3,111,820)** | (2,554,626) |
| ***Net Cash Used In Noncapital Financing Activities*** | **(2,639,722)** | (83,619,835) |
| ***Cash Flows From Capital and Related Financing Activities*** | | |
| Purchase of fixed assets | **(487,140)** | (565,166) |
| ***Net Cash Used in Capital and Related Financing Activities*** | **(487,140)** | (565,166) |
| ***Cash Flows From Investing Activities*** | | |
| Purchase of investment securities | **(498,745,056)** | (599,567,077) |
| Proceeds from sale and maturities of investment securities | **496,583,052** | 836,862,978 |
| Interest received on investments | **41,760,978** | 45,384,164 |
| ***Net Cash Provided by Investing Activities*** | **39,598,974** | 282,680,065 |
| ***Change in cash and cash equivalents*** | **(53,570,212)** | 121,612,978 |
| ***Cash and cash equivalents, beginning of year*** | **246,472,932** | 124,859,954 |
| ***Cash and cash equivalents, end of year*** | **$ 192,902,720** | $ 246,472,932 |

| | 2008 | 2007 |
|---|---|---|
| ***Reconciliation of Operating Income to Cash Flows Used In Operating Activities*** | | |
| Operating income | **$ 35,233,609** | $ 28,036,851 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Interest on bonds payable | **85,727,708** | 77,607,580 |
| Net increase in fair market value of investments | **(9,741,463)** | (5,572,817) |
| Interest from investments | **(43,723,853)** | (38,811,841) |
| Amortization of deferred financing costs | **2,276,635** | 3,132,970 |
| Changes in assets and liabilities: | | |
| Loan interest receivable | **(923,996)** | (523,421) |
| Accounts payable and other liabilities | **1,042,498** | 1,270,924 |
| Mortgage loans receivable | **(159,977,701)** | (142,264,227) |
| Other receivables | **1,012,564** | (658,701) |
| Other assets | **(310,796)** | 424,406 |
| Multifamily escrows and reserves | **(934,488)** | 3,502 |
| Depreciation | **267,434** | 298,519 |
| Bad debt expense | **9,525** | 174,169 |
| ***Net Cash Used In Operating Activities*** | **$ (90,042,324)** | $ (76,882,086) |

## *Note 1. Authorizing Legislation and Indentures*:

**Authorizing Legislation:**

The South Dakota Housing Development Authority (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 $262,095,000 for 2008. An additional $96,550,479 was allocated to South Dakota through the Housing Recovery Act of 2008. These funds are available through 2010 for 'qualified housing issues' of the Housing Recovery Act of 2008. 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 Program Bonds:**

This indenture, established under the Homeownership Mortgage Program 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 70 percent of the appraised value of the home.

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**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.

**Housing Development Revenue Bonds:**

This indenture, established under the Housing Development Revenue Bond Resolution adopted August 5, 1998, is prescribed for accounting for the proceeds from the sale of Housing Development Revenue Bonds to provide funds for the development and construction of single family homes. 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 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 Financial Accounting Standards Board (FASB) Statements and Interpretations 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:**

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

**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.

**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.

**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.

**Bond Premiums and Discounts:**

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

**Interest Rate Swaps:**

The Authority enters into certain derivative financial instruments called Interest Rate Swap Agreements (swaps). The Authority enters into these swaps with various counter-parties to achieve a lower overall cost of funds. These agreements can be negotiated whereby the Authority pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party. The particulars of each swap are negotiated to achieve the financing objectives of the Authority. Other than the net interest expense resulting from these agreements, no amounts are recorded in the Authority's financial statements.

**Furniture and Equipment:**

Furniture and equipment 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 capitalization threshold for furniture and equipment is $1,000. The estimated useful lives for furniture and equipment range from 4 – 6 years.

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**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 $3,784,502 and $1,675,012 at June 30, 2008 and 2007, 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.

**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.

**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.

## *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, debt obligations guaranteed by the United States of America, bank instruments collateralized by debt obligations guaranteed by United States Agencies, and shares of an investment company (mutual funds) whose investments are in debt obligations guaranteed by the United States of America. As of the years ended June 30, 2008 and 2007 all investments held by the Authority were in compliance with the requirements of the bond resolutions.

**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, 2008 and June 30, 2007 of the Authority’s deposits of $2,327,754 (carrying value of $575,345) and $2,284,605 (carrying value of $1,766,413) all were covered by insurance or collateral 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.

(continued on next page)

Interest Rate Risk: The Authority limits the maturities of investments for its restricted accounts. Investments of the Capital Reserve accounts must have an average maturity within 5 years, with 15 percent thereof within two years, from the date of purchase. Investments of the Mortgage Reserve accounts must mature within 5 years from the date of purchase. 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, 2008 and 2007, 13.0 percent and 10.0 percent, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2008, and 2007, the Authority had investments maturing as follows:

| | | **2008 Investment Maturities (in Years)** | | | |
|---|---|---|---|---|---|
| | **Fair Value** | **Less than 1** | **1 to 5** | **6 to 10** | **Greater than 10** |
| U.S. Government Obligations | **$ 24,055,869** | **$ 1,790,584** | **$ 14,543,641** | **$ 7,721,644** | **$ -** |
| U.S. Agency Obligations | **367,697,793** | **131,540,507** | **77,095,868** | **94,627,278** | **64,434,140** |
| Mutual Funds | **160,675,768** | **160,520,962** | **154,806** | **-** | **-** |
| Investment Agreements | **188,348,962** | **30,676,013** | **151,651,082** | **-** | **6,021,867** |
| State Obligations | **43,584,989** | **5,068,719** | **23,185,642** | **13,692,259** | **1,638,369** |
| Total | **$ 784,363,381** | **$ 329,596,785** | **$ 266,631,039** | **$ 116,041,181** | **$ 72,094,376** |

| | | 2007 Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | Greater than 10 |
| U.S. Government Obligations | $ 23,864,177 | $ 353,207 | $ 9,170,397 | $ 13,389,707 | $ 950,866 |
| U.S. Agency Obligations | 440,241,388 | 222,984,976 | 121,240,411 | 33,802,716 | 62,213,285 |
| Mutual Funds | 155,523,018 | 155,523,018 | - | - | - |
| Investment Agreements | 177,015,291 | 9,288,727 | 75,558,000 | - | 92,168,564 |
| State Obligations | 27,243,180 | 3,013,162 | 13,032,161 | 10,698,305 | 499,552 |
| Total | $ 823,887,054 | $ 391,163,090 | $ 219,000,969 | $ 57,890,728 | $ 155,832,267 |

At June 30, 2008 and 2007 certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Homeownership Mortgage Program Bonds** | **Multiple Purpose Bonds** | **Multifamily Risk Sharing Bonds** | Homeownership Mortgage Program Bonds | Multiple Purpose Bonds | Multifamily Risk Sharing Bonds |
| Capital Reserve for debt service | **$ 115,921,900** | **$ 4,352,260** | **$ 611,416** | $ 114,861,250 | $ 4,352,260 | $ 611,416 |
| Mortgage Reserve for debt service, bond redemption premiums and potential loan losses | **45,482,253** | **-** | **-** | 45,873,354 | - | - |
| Total | **$ 161,404,153** | **$ 4,352,260** | **$ 611,416** | $ 160,734,604 | $ 4,352,260 | $ 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 rated in the two highest categories by a national rating agency, 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** | **2008** | 2007 |
|---|---|---|
| Aaa | **$ 609,023,517** | $ 706,763,302 |
| Aa | **21,488,220** | 84,413,410 |
| A | **8,211,012** | - |
| MIG1 | **1,001,490** | - |
| Unrated | **120,583,273** | 8,846,165 |
| Total | **$ 760,307,512** | $ 800,022,877 |

(continued on next page)

Concentration of Credit Risk: The Authority places no limit on the amount that the Authority may invest in any one issuer. At June 30, 2008 the Authority held 5 percent or more of their investments with the following issuers: Federal Home Loan Bank (24.39%), Federal National Mortgage Association (10.60%), Federal Home Loan Mortgage Corporation (8.55%), Aegon (7.53%) and Pallas Capital Corporation Investment Agreement (11.87%). At June 30, 2007, the following issuers held 5 percent or more of the Authority's investments: Federal Home Loan Bank (29.27%), Pallas Capital Corporation Investment Agreement (9.18%), Depfa (8.30%), Federal National Mortgage Association (10.60%) and Federal Home Loan Mortgage Corporation (8.52%).

## *Note 4. Mortgage Loans Receivable:*

Mortgage loans receivable at June 30 consist of the following:

| | **2008** | 2007 |
|---|---|---|
| Homeownership Mortgage Program Bonds | **$ 1,379,080,341** | $ 1,221,634,709 |
| Multiple Purpose Bonds | **36,141,975** | 38,206,256 |
| Other (General Operating Account) | **50,128,720** | 45,523,369 |
| Total | **$ 1,465,351,036** | $ 1,305,373,334 |

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. No allowance for uncollectible loans has been determined to be required for the portion of loans that are not insured or guaranteed.

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, 2008 and 2007 is $1,505,517 and $976,086 respectively.

## *Note 5. Bonds Payable:*

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

| | | | **2008** | | | 2007 |
|---|---|---|---|---|---|---|
| **Bond Issue** | **Maturity Date** | **Interest Rate** | **Serial** | **Term (1)** | **Total Outstanding** | Total Outstanding |
| 1977 Series A | 2008 | 6.125% | $ - | $ - | **-** | $ 5 |
| 1978 Series A | 2009 | 5.9% | - | - | **-** | 5 |
| 1978 Series B | 2009 | 6.75% | - | - | **-** | 5 |
| 1979 Series A | 2010 | 7.1% | - | - | **-** | 5 |
| 1980 Series B | 2011 | 8.25% to 8.5% | - | - | **-** | 5 |
| 1997 Series C | 2009-2018 | 5.05% to 5.375% | 855 | 4,755 | **5,610** | 6,530 |
| 1997 Series D | 2018-2024 | 5.375% to 5.4% | - | 7,270 | **7,270** | 7,815 |
| 1997 Series E-1 | 2009-2030 | 4.95% to 5.4% | 2,650 | 32,745 | **35,395** | 39,095 |
| 1997 Series E-2 | 2009-2030 | 4.8% to 5.3% | 2,205 | 27,310 | **29,515** | 30,180 |
| 1997 Series E-3 | 2009-2030 | 4.8% to 5.35% | 1,185 | 14,615 | **15,800** | 16,155 |
| 1997 Series E-4 | 2008-2011 | 4.95% to 5.25% | - | - | **-** | 2,030 |
| 1997 Series J | 2017-2029 | 5.55% to 5.65% | - | 53,620 | **53,620** | 82,920 |
| 1998 Series A | 2018-2028 | 5.3% to 5.4% | - | 12,700 | **12,700** | 13,230 |
| 1998 Series G | 2029 | 5.35% | - | 7,640 | **7,640** | 7,905 |
| 1999 Series D | 2008-2019 | 4.9% to 5.45% | - | - | **-** | 7,170 |
| 2001 Series A | 2028 | 4.55% | - | - | **-** | 690 |
| 2001 Series D | 2009-2012 | 4.6% to 4.9% | 2,060 | - | **2,060** | 4,485 |
| 2001 Series E | 2021-2025 | 4.72% to 5.45% | - | 2,960 | **2,960** | 6,535 |
| 2001 Series F | 2030 | 4.85% | - | 20,000 | **20,000** | 20,000 |

(continued on next page)

| | | | | | | |
|---|---|---|---|---|---|---|
| 2002 Series B | 2025 | 4.75% | - | 435 | **435** | 2,170 |
| 2002 Series C | 2009-2033 | 4.55% to 5.47% | 1,230 | 12,850 | **14,080** | 14,355 |
| 2002 Series D | 2009-2014 | 4.3% to 4.85% | 8,000 | - | **8,000** | 9,145 |
| 2002 Series E | 2021-2025 | 4.65% to 5.45 | - | 8,760 | **8,760** | 12,045 |
| 2002 Series F | 2009-2014 | 3.65% to 4.3% | 7,675 | - | **7,675** | 8,800 |
| 2002 Series G | 2022-2033 | 5.2% to 5.3% | - | 33,050 | **33,050** | 35,175 |
| 2002 Series H | 2009-2014 | 3.55% to 4.35 | 11,170 | - | **11,170** | 12,965 |
| 2002 Series I | 2023-2033 | 3.75% to 5.25% | - | 22,605 | **22,605** | 24,280 |
| 2003 Series A | 2009-2023 | 3.15% to 4.75% | 8,905 | 1,455 | **10,360** | 11,315 |
| 2003 Series B | 2023-2034 | 4.95% to 5.05% | - | 28,320 | **28,320** | 30,290 |
| 2003 Series C-1 | 2032 | 1.7% (2) | - | 26,500 | **26,500** | 26,500 |
| 2003 Series C-2 | 2032 | 1.6% (2) | - | 26,400 | **26,400** | 26,400 |
| 2003 Series D | 2009-2022 | 2.9% to 4.8% | 7,005 | 4,325 | **11,330** | 21,350 |
| 2003 Series E | 2028 | 5.0% | - | 6,060 | **6,060** | 8,150 |
| 2003 Series F | 2034 | 1.7 (2) | - | 20,000 | **20,000** | 20,000 |
| 2003 Series G | 2009-2017 | 3.05% to 4.55 | 12,145 | 5,080 | **17,225** | 18,820 |
| 2003 Series H | 2022-2028 | 4.85% to 5% | - | 21,385 | **21,385** | 24,510 |
| 2003 Series I | 2034 | 1.75% (2) | - | 28,000 | **28,000** | 28,000 |
| 2004 Series A | 2009-2017 | 3.35% to 4.7% | 20,715 | - | **20,715** | 22,625 |
| 2004 Series B | 2021-2027 | 4.95% to 5% | - | 23,095 | **23,095** | 29,200 |
| 2004 Series C | 2034 | 1.75% (2) | - | 34,000 | **34,000** | 34,000 |
| 2004 Series D | 2032 | 1.4% (2) | - | 11,890 | **11,890** | 11,890 |
| 2004 Series E | 2009-2017 | 3.0% to 4.25% | 20,905 | - | **20,905** | 22,875 |
| 2004 Series F | 2022-2028 | 4.6% to 5.25% | - | 30,140 | **30,140** | 34,585 |
| 2004 Series G | 2034 | 1.66% (2) | - | 33,000 | **33,000** | 33,000 |
| 2005 Series A | 2009-2018 | 3.15% to 4.2% | 22,840 | - | **22,840** | 24,745 |
| 2005 Series B | 2023-2027 | 4.5% to 5.25% | - | 22,150 | **22,150** | 27,065 |
| 2005 Series C | 2035 | 1.75% (2) | - | 41,000 | **41,000** | 41,000 |
| 2005 Series D | 2031 | 1.4% (2) | - | 6,925 | **6,925** | 6,925 |
| 2005 Series E | 2009-2018 | 3.2% to 4.1% | 23,235 | - | **23,235** | 25,145 |
| 2005 Series F | 2027-2030 | 4.6% to 5.0% | - | 41,595 | **41,595** | 44,330 |
| 2005 Series G | 2035 | 1.66% (2) | - | 25,000 | **25,000** | 25,000 |
| 2005 Series J | 2010-2018 | 3.7% to 4.55% | 33,355 | - | **33,355** | 33,355 |
| 2005 Series K | 2009-2036 | 3.75% to 5.05% | 2,680 | 103,555 | **106,235** | 112,600 |
| 2006 Series A | 2009-2019 | 3.75% to 4.5% | 30,125 | - | **30,125** | 32,245 |
| 2006 Series B | 2026-2031 | 4.9% to 6% | - | 54,440 | **54,440** | 56,280 |
| 2006 Series C | 2037 | 1.66% (2) | - | 45,000 | **45,000** | 45,000 |
| 2006 Series D | 2013-2019 | 3.7% to 4.0% | 17,055 | - | **17,055** | 17,055 |
| 2006 Series E | 2009-2036 | 3.7% to 4.625% | 7,875 | 72,380 | **80,255** | 82,920 |
| 2006 Series F | 2008 | 4.5% | - | - | **-** | 100,000 |
| 2006 A Drawdown | 2045 | 4.7% to 4.8% (2) | 765 | - | **765** | 5,245 |
| 2006 A-2 Drawdown | 2045 | 4.3% (2) | - | - | **-** | - |
| 2006 A-3 Drawdown | 2045 | 4.3% (2) | - | 5,578 | **5,578** | 11,383 |
| 2006 A-4 Drawdown | 2045 | 4.3% (2) | - | - | **-** | 31,550 |
| 2006 A-5 Drawdown | 2045 | 4.3% (2) | - | - | **-** | 17,350 |
| 2006 A-6 Drawdown | 2045 | 4.3% (2) | - | 1,202 | **1,202** | 10,030 |
| 2006 A-7 Drawdown | 2045 | 4.3% (2) | - | 8,725 | **8,725** | - |
| 2006 A-8 Drawdown | 2045 | 4.3% (2) | - | 15,975 | **15,975** | - |
| 2006 A-9 Drawdown | 2045 | 4.3% (2) | - | 22,875 | **22,875** | - |
| 2006A-10 Drawdown | 2045 | 4.3% (2) | - | 28,090 | **28,090** | - |
| 2006A-11 Drawdown | 2045 | 4.3% (2) | - | 9,610 | **9,610** | - |
| 2007 Series A | 2013-2019 | 3.85% to 4.2% | 14,105 | - | **14,105** | 14,105 |
| 2007 Series B | 2009-2037 | 3.8% to 4.85% | 9,470 | 74,460 | **83,930** | 85,895 |
| 2007 Series C | 2008 | 4.5% | - | - | **-** | 100,000 |
| 2007 Series D | 2013-2018 | 3.95% to 4.35% | 12,920 | - | **12,920** | - |
| 2007 Series E | 2009-2037 | 3.8% to 5.75% | 8,200 | 77,170 | **85,370** | - |
| 2007 Series F | 2008 | 4.25% | 100,000 | - | **100,000** | - |
| 2007 Series G | 2014-2018 | 3.75%-4.2% | 7,970 | - | **7,970** | - |
| 2007 Series H | 2018-2037 | 3.7%-5.5% | 10,070 | 47,925 | **57,995** | - |
| 2007 Series I | 2026-2038 | 1.66% (2) | 34,000 | - | **34,000** | - |
| 2008 Series A | 2009-2018 | 2.6%-4.375% | 7,500 | - | **7,500** | - |
| 2008 Series B | 2018-2028 | 3.25%-5.75% | 16,535 | 25,965 | **42,500** | - |
| 2008 Series C | 2028-2039 | 1.65% (2) | 50,000 | - | **50,000** | |
| Plus unamortized premium | | | | | **13,639** | 13,336 |
| Less unamortized loss of refunding | | | | | **(1,130)** | (1,226) |
| Total Homeownership Mortgage Program Bonds | | | | | **$1,818,499** | $1,728,543 |

*(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)

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

| | | | 2008 | | | 2007 |
|---|---|---|---|---|---|---|
| **Bond Issue** | **Maturity Date** | **Interest Rate** | **Serial** | **Term(1)** | **Total Outstanding** | Total Outstanding |
| 2002 Series A | 2007-2020 | 3.75% to 5.15% | $ 7,340 | $ 16,280 | **$ 23,620** | $ 24,940 |
| 2002 Series B | 2007-2021 | 3.1% to 5.1% | 7,935 | 6,040 | **13,975** | 15,000 |
| Less unamortized loss on refunding | | | | | **(835)** | (902) |
| Total Multifamily Trust Bonds | | | | | **$ 36,760** | $ 39,038 |

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

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):

| | | | 2008 | | | 2007 |
|---|---|---|---|---|---|---|
| **Bond Issue** | **Maturity Date** | **Interest Rate** | **Serial** | **Term(1)** | **Total Outstanding** | Total Outstanding |
| Series 2001 | 2031 | 3.78% | $ - | $ 6,495 | **$ 6,495** | $ 6,495 |
| Series 2001 | 2034 | 3.88% | - | 13,000 | **13,000** | 13,000 |
| Series 2002 A | 2010-2033 | 3.6% to 5.35% | 105 | 2,300 | **2,405** | 2,445 |
| Series 2004 A | 2008-2033 | 6.15% | - | - | **3,084** | 3,134 |
| Total Multifamily Housing Revenue Bonds | | | | | **$ 24,984** | $ 25,074 |

*(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):

| | | | 2008 | | 2007 |
|---|---|---|---|---|---|
| **Bond Issue** | **Maturity Date** | **Interest Rate** | **Term** | **Total Outstanding** | Total Outstanding |
| 1995 Series A | 2010 | 7.5% to 8.5% | $ 1,968 | **1,968** | $ 2,078 |
| 1996 Series B | 2012 | 3.75% | 1,365 | **1,365** | 1,392 |
| Series 1999-1 | 2015 | 4.0% | 1,288 | **1,288** | 1,317 |
| Series 1999-2 | 2015 | 6.0% | 1,408 | **1,408** | 1,449 |
| Series 1999-3 | 2015 | 6.0% | 1,512 | **1,512** | 1,545 |
| Series 2000-1 | 2015 | 7.5% | 760 | **760** | 773 |
| Series 2002-1 | 2017 | 7.0% | 4,028 | **4,028** | 4,102 |
| Total Multifamily Mortgage Pass-Through Bonds | | | $ 12,329 | **12,329** | $ 12,656 |

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

| | | | 2008 | | | 2007 |
|---|---|---|---|---|---|---|
| **Bond Issue** | **Maturity Date** | **Interest Rate** | **Serial** | **Term (1)** | **Total Outstanding** | Total Outstanding |
| Series 1999 | 2009-2040 | 5.4% to 5.8% | $ - | $ 3,045 | **$ 3,045** | $ 3,075 |
| Series 2000 | 2032 | 5.85% | - | 3,275 | **3,275** | 3,390 |
| Series 2001 | 2008-2043 | 3.9% to 5.35% | 205 | 7,300 | **7,505** | 7,565 |
| Total Multifamily Risk Sharing Bonds | | | | | **13,825** | 14,030 |
| TOTAL BONDS OUTSTANDING | | | | | **$ 1,906,397** | $ 1,819,341 |

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

(continued on next page)

Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2008 and 2007:

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Homeownership Mortgage Program Bonds | $ 1,728,543,342 | $ 491,000,503 | $ 401,044,742 | $ 1,818,499,103 | $ 131,355,000 |
| Multiple Purpose Bonds | 39,038,428 | 66,470 | 2,345,000 | 36,759,899 | 2,425,000 |
| Multifamily Housing Revenue Bonds | 25,073,343 | - | 89,176 | 24,984,167 | 97,247 |
| Multifamily Mortgage Pass-Through Bonds | 12,655,887 | - | 326,823 | 12,329,064 | 1,131,674 |
| Multifamily Risk Sharing Bonds | 14,030,000 | - | 205,000 | 13,825,000 | 220,000 |
| | $ 1,819,341,000 | $ 491,266,973 | $ 404,010,741 | $ 1,906,397,232 | $ 135,228,921 |

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Homeownership Mortgage Program Bonds | $ 1,730,184,270 | $ 584,954,486 | $ 586,595,414 | $ 1,728,543,342 | $ 228,220,000 |
| Multiple Purpose Bonds | 41,236,957 | 66,471 | 2,265,000 | 39,038,428 | 2,345,000 |
| Multifamily Housing Revenue Bonds | 25,159,629 | - | 86,286 | 25,073,343 | 89,176 |
| Multifamily Mortgage Pass-Through Bonds | 12,962,719 | 3,591 | 310,423 | 12,655,887 | 326,739 |
| Multifamily Risk Sharing Bonds | 14,225,000 | - | 195,000 | 14,030,000 | 205,000 |
| | $ 1,823,768,575 | $ 585,024,548 | $ 589,452,123 | $ 1,819,341,000 | $ 231,185,915 |

Short-term debt is included in the above table with $100 million, $200 million and $300 million short term debt outstanding at June 30, 2008, 2007, and 2006 respectively. The Authority issued short term debt during the fiscal year for the purpose of preserving bonding authority. The bonds are expected to be refunded into long term debt for the purpose of originating qualified mortgage loans under the Homeownership Mortgage Program.

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 End June 30 | Homeownership Mortgage Program Bonds Principal | Homeownership Mortgage Program Bonds Interest | Multiple Purpose Bonds Principal | Multiple Purpose Bonds Interest | Multifamily Housing Revenue Bonds Principal | Multifamily Housing Revenue Bonds Interest |
|---|---|---|---|---|---|---|
| 2009 | $ 131,355,000 | $ 71,547,151 | $ 2,425,000 | $ 1,729,684 | $ 97,247 | $ 637,183 |
| 2010 | 33,890,000 | 69,131,983 | 2,520,000 | 1,634,887 | 100,510 | 632,185 |
| 2011 | 37,705,000 | 67,636,322 | 2,615,000 | 1,531,383 | 108,976 | 627,009 |
| 2012 | 39,840,000 | 66,121,067 | 2,730,000 | 1,419,740 | 112,658 | 621,900 |
| 2013 | 40,775,000 | 64,540,254 | 3,710,000 | 1,300,985 | 121,571 | 614,860 |
| 2014-2018 | 220,090,000 | 294,972,706 | 14,795,000 | 4,266,240 | 715,655 | 2,963,725 |
| 2019-2023 | 251,025,000 | 238,536,984 | 8,800,000 | 784,710 | 962,380 | 2,725,793 |
| 2024-2028 | 289,230,000 | 171,536,574 | - | - | 1,284,238 | 2,406,759 |
| 2029-2033 | 348,740,000 | 100,575,019 | - | - | 8,198,963 | 1,737,453 |
| 2034-2038 | 314,215,000 | 37,182,370 | - | - | 13,281,969 | 284,714 |
| 2039-2043 | 6,305,000 | 20,056,538 | - | - | - | - |
| 2044-2048 | 92,820,000 | 7,657,014 | - | - | - | - |
| Total | $ 1,805,990,000 | $ 1,209,493,982 | $ 37,595,000 | $ 12,667,629 | $ 24,984,167 | $ 13,251,581 |

| Year End June 30 | Multifamily Mortgage Pass-Through Bonds Principal | Multifamily Mortgage Pass-Through Bonds Interest | Multifamily Risk Sharing Bonds Principal | Multifamily Risk Sharing Bonds Interest |
|---|---|---|---|---|
| 2009 | $ 1,131,674 | $ 700,423 | $ 220,000 | $ 765,377 |
| 2010 | 1,310,941 | 617,849 | 235,000 | 753,835 |
| 2011 | 258,687 | 560,004 | 215,000 | 741,374 |
| 2012 | 274,086 | 545,205 | 180,000 | 729,807 |
| 2013 | 1,505,415 | 494,343 | 190,000 | 719,693 |
| 2014-2018 | 7,848,261 | 1,211,421 | 1,150,000 | 3,422,106 |
| 2019-2023 | - | - | 1,550,000 | 3,054,219 |
| 2024-2028 | - | - | 2,100,000 | 2,557,819 |
| 2029-2033 | - | - | 2,715,000 | 1,877,906 |
| 2034-2038 | - | - | 2,335,000 | 1,175,280 |
| 2039-2043 | - | - | 2,935,000 | 470,758 |
| 2044-2048 | - | - | - | - |
| Total | $ 12,329,064 | $ 4,129,245 | $ 13,825,000 | $ 16,268,174 |

(continued on next page)

## *Note 6. 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, 2008, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Authority has purchased the right to terminate the outstanding swap balances at par value on dates that are generally 10 years after the date of issuance of the related bonds.

| Bond Series | Current Notional Amount | Effective Date | Fixed Rate | Variable Rate Received | Swap Termination Date | Counterparty Credit Rating* | Fair Value |
|---|---|---|---|---|---|---|---|
| 2003 C-1 | $26,500,000 | 6/18/04 | 3.400% | 57% of LIBOR plus 0.42% | 5/01/2013 | A1 | $ (766,171) |
| 2004 G | 33,000,000 | 10/20/04 | 3.897% | 63.4% of LIBOR plus 0.29% | 5/01/2034 | Aaa | (353,206) |
| 2005 C | 41,000,000 | 4/13/05 | 3.930% | 63.3% of LIBOR plus 0.30% | 5/01/2035 | Aaa | (619,476) |
| 2005 D | 6,925,000 | 4/13/05 | 3.290% | 57.3% of LIBOR plus 0.40% | 5/01/2015 | A1 | (167,170) |
| 2003 F | 13,000,000 | 6/21/05 | 3.763% | 63.8% of LIBOR plus 0.29% | 5/01/2034 | Aa1 | 113,170 |
| 2003 I | 28,000,000 | 6/21/05 | 3.763% | 63.8% of LIBOR plus 0.29% | 5/01/2034 | Aa1 | 236,910 |
| 2004 C | 34,000,000 | 6/21/05 | 3.745% | 63.8% of LIBOR plus 0.29% | 5/01/2034 | Aa1 | 289,545 |
| 2005 G | 25,000,000 | 7/19/05 | 3.773% | 63.8% of LIBOR plus 0.29% | 5/01/2035 | Aaa | 78,453 |
| 2006 C | 45,000,000 | 6/14/06 | 4.419% | 64% of LIBOR plus 0.29% | 5/01/2037 | Aaa | (2,637,696) |
| 2007 I | 34,000,000 | 10/16/07 | 4.143% | 63.8% of LIBOR Plus .30% | 05/01/2038 | A1 | (1,428,210) |
| 2008 C | 50,000,000 | 3/26/08 | 3.42% | 63.7% of LIBOR plus 0.30% | 05/01/2039 | Aaa | 855,584 |

* Moody's Investor Service

The fair values presented above were estimated by the Authority's counterparty to the swaps. 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, 2008. 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 positions have a positive value.

(continued on next page)

*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 year ended June 30, 2008, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 3.02% per annum, while the weighted average interest rate on the swaps was 3.04% per annum. 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.

*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.

*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, 2008:

| Year End June 30 | Variable-Rate Bond Principal | Variable-Rate Bond Interest | Interest Rate Swap – Net | Total |
|---|---|---|---|---|
| 2009 | $ - | $ 5,670,150 | $ 6,648,115 | $ 12,318,265 |
| 2010 | - | 5,670,150 | 6,648,115 | 12,318,265 |
| 2011 | - | 5,670,150 | 6,648,115 | 12,318,265 |
| 2012 | - | 5,670,150 | 6,648,115 | 12,318,265 |
| 2013 | - | 5,670,150 | 6,578,429 | 12,248,579 |
| 2014-2018 | - | 28,350,750 | 30,825,347 | 59,176,097 |
| 2019-2023 | - | 28,350,750 | 30,637,395 | 58,988,145 |
| 2024-2028 | 9,645,000 | 28,292,297 | 30,561,489 | 68,498,786 |
| 2029-2033 | 116,180,000 | 24,647,529 | 26,782,358 | 167,609,887 |
| 2034-2038 | 204,295,000 | 5,795,215 | 6,868,788 | 216,959,003 |
| 2039 | 6,305,000 | 80,768 | 76,147 | 6,461,915 |
| Total | $ 336,425,000 | $ 143,868,059 | $ 158,922,413 | $ 639,215,472 |

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## *Note 7. 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.

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:

| | **2008** | 2007 |
|---|---|---|
| Bond and note reserve | **$ 4,314,198** | $ 4,132,463 |
| Program operations reserve | **2,193,064** | 1,904,737 |
| Total | **$ 6,507,262** | $ 6,037,200 |

## *Note 8. Commitments:*

As of June 30, 2008, the Authority had the following Homeownership Mortgage Program Bond commitments:

- Commitments to purchase Homeownership mortgage loans aggregating $57,347,457.
- In June 2007, the Authority satisfied its contractual obligation to purchase property on which a new building will be constructed with an estimated completion date of May 2009, at an estimated cost of $5,000,000.

(continued on next page)

## *Note 9. 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, 2008 and 2007, for the Homeownership Mortgage Program Bonds and the Multiple Purpose Bonds follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **Condensed Statement of Net Assets** | **Homeownership Mortgage Program Bonds** | **Multiple Purpose Trust Bonds** | **Homeownership Mortgage Program Bonds** | **Multiple Purpose Trust Bonds** |
| Assets: | | | | |
| Interfund receivables (payables) | $ 11,178,057 | $ (53,479) | $ 8,241,805 | $ (15,825) |
| Other current assets | 398,876,629 | 16,185,478 | 534,244,122 | 14,142,904 |
| Noncurrent assets | 1,713,314,784 | 71,007,506 | 1,461,689,146 | 71,334,690 |
| Total Assets | $ 2,123,369,470 | $ 87,139,505 | $ 2,004,175,073 | $ 85,461,769 |
| Liabilities and Net Assets | | | | |
| Current liabilities | $ 144,270,910 | $ 2,640,821 | $ 242,045,573 | $ 2,654,367 |
| Noncurrent liabilities | 1,690,928,605 | 34,414,898 | 1,502,018,477 | 36,693,428 |
| Total Liabilities | 1,835,199,515 | 37,055,719 | 1,744,064,050 | 39,347,795 |
| Net assets: | | | | |
| Restricted by bond indentures | 288,169,955 | 50,083,786 | 260,111,023 | 46,113,974 |
| Total liabilities and net assets | $ 2,123,369,470 | $ 87,139,505 | $ 2,004,175,073 | $ 85,461,769 |
| **Condensed Statement of Revenues, Expenses, and Changes in Net Assets** | | | | |
| Operating Revenues | $ 119,153,835 | $ 6,338,363 | $ 104,269,454 | $ 5,767,497 |
| Operating Expenses | 91,094,903 | 2,368,551 | 82,660,613 | 2,423,673 |
| Operating Income | 28,058,932 | 3,969,812 | 21,608,841 | 3,343,824 |
| Transfers Out | - | - | (1,000,000) | - |
| Change in net assets | 28,058,932 | 3,969,812 | 20,608,841 | 3,343,824 |
| Beginning net assets | 260,111,023 | 46,113,974 | 239,502,182 | 42,770,150 |
| Ending net assets | $ 288,169,955 | $ 50,083,786 | $ 260,111,023 | $ 46,113,974 |
| **Condensed Statement of Cash Flows** | | | | |
| Net cash provided (used) by: | | | | |
| Operating activities | $ (94,084,785) | $ 4,811,232 | $ (79,635,624) | $ 3,878,829 |
| Noncapital financing activities | 4,669,773 | (4,244,074) | (77,231,168) | (4,216,384) |
| Investing activities | 36,594,775 | (1,826,742) | 284,162,609 | (4,528,415) |
| Net change | (52,820,237) | (1,259,584) | 127,295,817 | (4,865,970) |
| Beginning cash and cash equivalents | 238,868,196 | 3,500,067 | 111,572,379 | 8,366,037 |
| Ending cash and cash equivalents | $ 186,047,959 | $ 2,240,483 | $ 238,868,196 | $ 3,500,067 |

## *Note 10. 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.

(continued on next page)

**Funding Policy:**

Plan members are required to contribute 6 percent of their annual covered salary and the Authority is required to match an additional 6 percent. 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 $156,570, $152,434 and $148,161 for the years ended June 30, 2008, 2007 and 2006, respectively.

## *Note 11. 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 12. 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 two years ended June 30, 2008, 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.

## *Note 13. Subsequent Events:*

In September of 2008, the Authority issued $100,000,000 of Homeownership Mortgage Bonds Series 2008 DEF and $7,320,000 of Multiple Purpose Bonds Series 2008 A. The Homeownership Bonds will mature on May 1, 2009, through May 1, 2039, with interest rates from 2.05% to 6.00%. The Multiple Purpose Bonds will mature on November 1, 2010, through May 1, 2048, with a variable interest rate.

The Authority incurred an additional $1.2 million in interest expense as a result of deteriorating conditions in the national and international credit markets that caused variable interest rates in the municipal bond market to increase in relation to 30-day LIBOR.

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**SUPPLEMENTARY INFORMATION**

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

## Supplemental Schedule of Net Assets

**As of June 30, 2008**

| Assets | General Operating Account | Homeownership Mortgage Program Bonds | Multifamily Housing Trust Bonds | Multifamily Housing Revenue Bonds | Multifamily Mortgage Pass-Through Bonds | Multifamily Risk Sharing Bonds | Combined Total |
|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | $ 3,329,450 | $ 186,047,959 | $ 2,240,483 | $ 810,416 | $ 31 | $ 474,381 | **$ 192,902,720** |
| Investment in securities | 1,100,172 | 127,756,158 | 10,706,092 | 194,425 | - | - | **139,756,847** |
| Mortgage loans receivable | 2,143,441 | 71,401,026 | 2,461,006 | - | - | - | **76,005,473** |
| Guaranteed mortgage securities | - | - | - | 269,619 | 1,131,674 | 214,050 | **1,615,343** |
| Interest receivable | 336,851 | 13,671,486 | 777,897 | 9,423 | 29 | 78,324 | **14,874,010** |
| Other receivables | 657,644 | - | - | - | - | - | **657,644** |
| Other assets | 2,423,278 | - | - | - | - | - | **2,423,278** |
| Due from (to) other funds | (11,110,578) | 11,178,057 | (53,479) | (9,000) | - | (5,000) | **-** |
| **Total Current Assets** | (1,119,742) | 410,054,686 | 16,131,999 | 1,274,883 | 1,131,734 | 761,755 | **428,235,315** |
| **Noncurrent Assets** | | | | | | | |
| Investment in securities | 23,354,001 | 391,122,865 | 36,963,074 | 237,680 | - | 601,540 | **452,279,160** |
| Mortgage loans receivable | 47,985,278 | 1,307,679,314 | 33,680,970 | - | - | - | **1,389,345,562** |
| Guaranteed mortgage securities | - | - | - | 23,941,050 | 11,197,390 | 13,071,648 | **48,210,088** |
| Other receivables | - | 1,580,232 | - | - | - | - | **1,580,232** |
| Furniture and equipment, at cost, less accumulated depreciation | 928,753 | - | - | - | - | - | **928,753** |
| Construction in Progress | 367,537 | | | | | | **367,537** |
| Land | 220,409 | | | | | | **220,409** |
| Deferred financing costs, net | - | 12,932,373 | 363,462 | 149,466 | - | - | **13,445,301** |
| **Total Noncurrent Assets** | 72,855,978 | 1,713,314,784 | 71,007,506 | 24,328,196 | 11,197,390 | 13,673,188 | **1,906,377,042** |
| **Total Assets** | 71,736,236 | 2,123,369,470 | 87,139,505 | 25,603,079 | 12,329,124 | 14,434,943 | **2,334,612,357** |
| **Liabilities** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Bonds payable | - | 131,355,000 | 2,425,000 | 97,247 | 1,131,674 | 220,000 | **135,228,921** |
| Accrued interest payable | - | 12,261,815 | 295,821 | 145,535 | - | 234,175 | **12,937,346** |
| Accounts payable and other liabilities | 1,589,498 | 654,095 | - | - | - | 98,796 | **2,342,389** |
| Multifamily escrows and reserves | 20,494,559 | - | - | 254,858 | - | 132,680 | **20,882,097** |
| **Total Current Liabilities** | 22,084,057 | 144,270,910 | 2,720,821 | 497,640 | 1,131,674 | 685,651 | **171,390,753** |
| **Noncurrent Liabilities** | | | | | | | |
| Bonds payable | - | 1,687,144,103 | 34,334,898 | 24,886,920 | 11,197,390 | 13,605,000 | **1,771,168,311** |
| Accounts payable and other liabilities | 790,250 | 3,784,502 | - | - | - | - | **4,574,752** |
| **Total Noncurrent Liabilities** | 790,250 | 1,690,928,605 | 34,334,898 | 24,886,920 | 11,197,390 | 13,605,000 | **1,775,743,063** |
| **Total Liabilities** | 22,874,307 | 1,835,199,515 | 37,055,719 | 25,384,560 | 12,329,064 | 14,290,651 | **1,947,133,816** |
| **Net Assets** | | | | | | | |
| Invested in Capital Assets | 1,516,699 | - | - | - | - | - | **1,516,699** |
| Restricted by Bond Indentures | 4,990,563 | 288,169,955 | 50,083,786 | 218,519 | 60 | 144,292 | **343,607,175** |
| Restricted by HOME Program | 42,354,667 | - | - | - | - | - | **42,354,667** |
| **Total Net Assets** | $ 48,861,929 | $ 288,169,955 | $ 50,083,786 | $ 218,519 | $ 60 | $ 144,292 | **$ 387,478,541** |

## *Supplemental Schedule of Operations and Changes in Net Assets*

***For the Year Ended June 30, 2008***

| ***Operating Revenues*** | ***General Operating Account*** | ***Homeownership Mortgage Program Bonds*** | ***Multifamily Housing Trust Bonds*** | ***Multifamily Housing Revenue Bonds*** | ***Multifamily Mortgage Pass-Through Bonds*** | ***Multifamily Risk Sharing Bonds*** | ***Combined Total*** |
|---|---|---|---|---|---|---|---|
| Interest income on mortgage loans | $ 187,746 | $ 71,390,147 | $ 3,078,387 | $ - | $ - | $ - | **$ 74,656,280** |
| Interest on guaranteed mortgage securities | - | - | - | 871,436 | 730,625 | 743,281 | **2,345,342** |
| Interest on investments | 390,030 | 38,599,392 | 2,303,262 | 38,360 | 7 | 47,460 | **41,378,511** |
| Net increase in fair value of investments | 106,446 | 8,673,215 | 956,714 | 5,088 | - | - | **9,741,463** |
| HUD contributions | 26,245,883 | - | - | - | - | - | **26,245,883** |
| Fee, grant and other income | 8,339,356 | 491,081 | - | - | - | - | **8,830,437** |
| ***Total Operating Revenues*** | 35,269,461 | 119,153,835 | 6,338,363 | 914,884 | 730,632 | 790,741 | **163,197,916** |
| ***Operating Expenses*** | | | | | | | |
| Interest | - | 81,412,243 | 1,949,999 | 910,457 | 682,812 | 772,197 | **85,727,708** |
| Housing assistance payments | 22,538,256 | - | - | - | - | - | **22,538,256** |
| Servicer and other fees | - | 6,835,731 | - | | - | - | **6,835,731** |
| General and administrative | 4,697,485 | 536,141 | 361,922 | - | - | - | **5,595,548** |
| Amortization of deferred financing costs | - | 2,206,417 | 56,630 | 13,588 | - | - | **2,276,635** |
| Other housing programs | 4,886,058 | 104,371 | - | - | - | - | **4,990,429** |
| ***Total Operating Expenses*** | 32,121,799 | 91,094,903 | 2,368,551 | 924,045 | 682,812 | 772,197 | **127,964,307** |
| ***Changes in net assets*** | 3,147,662 | 28,058,932 | 3,969,812 | (9,161) | 47,820 | 18,544 | **35,233,609** |
| ***Net Assets, beginning of year*** | 45,714,267 | 260,111,023 | 46,113,974 | 227,680 | (47,760) | 125,748 | **352,244,932** |
| ***Net Assets, end of year*** | $ 48,861,929 | $ 288,169,955 | $ 50,083,786 | $ 218,519 | $ 60 | $ 144,292 | **$ 387,478,541** |