FINANCIAL REPORT
JUNE 30, 2007

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

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EideBailly
CPAs & BUSINESS ADVISORS

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, 2007 and 2006, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also 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, 2007 and 2006, 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.

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.

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, 2007 and 2006, taken as a whole. The supplementary information set forth on pages 23 and 24 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 10, 2007

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, 2007 (FY 2007). 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 $26.1 million (or 1.2%) as of June 30, 2007
- Total liabilities of the Authority decreased $2.0 million (or 0.1%) as of June 30, 2007
- Net assets of the Authority increased $28.0 million (or 8.6%) as of June 30, 2007
- Cash and cash equivalents of the Authority increased $121.6 million (or 97.4%) as of June 30, 2007

- Investments in securities decreased $231.6 million (or 106.3%) while cash and cash equivalents increased $121.6 (or 97.4%) as of June 30, 2007
- Mortgage loans receivable increased $142.3 million (or 12.2%) as of June 30, 2007
- Debt outstanding of the Authority decreased $4.4 million (or 0.2%) as of June 30, 2007

Changes in Net Assets
(in millions of dollars)

	FY 2007	FY 2006	% Change
Revenues:			
Interest on mortgages	$ 66.1	$ 60.3	9.6%
Investment income	38.8	31.3	24.0%
Increase (decrease) in fair market value of investments	5.6	(11.7)	147.9%
Other income	37.8	36.7	3.0%
Total Revenues	148.3	116.6	27.2%
Expenses:			
Interest	77.6	71.1	9.1%
Servicer Fees	5.8	3.9	48.7%
General & Administrative	5.5	5.2	5.8%
Other	31.4	30.1	4.3%
Total Expenses	120.3	110.3	9.1%
Change in Net Assets	$ 28.0	$ 6.3	344.4%

Analysis:

Interest on mortgages and investments increased during the year as a result of yields on loans and investments increasing to higher levels. In addition, the loan portfolio size increased as a result of loan originations being more than loan prepayments and payoffs. Investment balances decreased from maturities of short term investments. The inverted yield curve for most of 2007 led to the decision to increase investments in Cash Equivalents.

The net increase in fair market value of investment securities in the amount of $5.6 million was recorded as a result of the rise in market value of investments. This is in comparison to a net decrease of $11.7 million recorded in fiscal year 2006. Investment yields were generally lower towards the end of fiscal year 2007, resulting in the increase in market value of investments that were acquired in previous periods at higher yields.

Interest expense on bonds increased 9% to $77.6 million as a result of higher interest rates.

Changes in net assets increased $28.0 million in 2007 compared to $6.3 million in fiscal year 2006.

Financial Statement Elements

Changes in Assets and Liabilities
(in millions of dollars)

	FY 2007	FY 2006	% Change
Assets:			
Cash and equivalents	$ 246.5	$ 124.9	97.4%
Investments	579.2	810.7	(28.6%)
Mortgages & Securities	1,356.0	1,214.5	11.7%
Interest Receivable	11.8	17.2	(31.4%)
Deferred Costs	12.5	13.2	(5.3%)
Capital Assets	1.3	1.1	18.2%
Other	5.4	5.1	5.9%
Total Assets	2,212.7	2,186.7	1.2%
Liabilities:			
Current bonds payable	231.2	330.8	(30.1%)
Interest payable	13.8	12.8	7.8%
Other	27.4	25.8	6.2%
Noncurrent bonds payable	1,588.1	1,493.0	6.4%
Total Liabilities	1,860.5	1,862.4	(0.1%)
Net Assets:			
Unrestricted	0.0	0.0	-
Invested in Capital Assets	1.3	1.1	18.2%
Restricted by Bond Indentures	311.2	288.1	8.0%
Restricted by HOME Program	39.7	35.1	13.1%
Total Net Assets	$ 352.2	$ 324.3	8.6%

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, 2007, the Authority had $1,819.3 million in bonds outstanding, a 0.2% decrease over the previous year.

The Authority issued a total of $580.3 million in bonds in fiscal year 2007. 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 $180.3 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 $584.6 million in bonds in fiscal year 2007. $253.8 million was redeemed from prepayments and excess reserves and $330.8 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.

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

Overview

This report is presented to provide additional information regarding the operations of the Authority and to meet the requirements of GASB Statement No. 34.

Statements of Net Assets

As of June 30

Assets	2007	2006
Current Assets		
Cash and cash equivalents (Note 3)	**$ 246,472,932**	$ 124,859,954
Investment in securities (Note 3)	**233,640,072**	346,631,211
Mortgage loans receivable (Note 4)	**66,672,086**	59,217,435
Guaranteed mortgage securities (Note 3)	**780,311**	731,162
Interest receivable	**11,821,701**	17,222,901
Other receivables	**821,266**	330,502
Other assets	**2,112,482**	2,536,888
Total Current Assets	**562,320,850**	551,530,053
Noncurrent Assets		
Investment in securities (Note 3)	**345,540,463**	464,103,909
Mortgage loans receivable (Note 4)	**1,238,701,248**	1,103,891,675
Guaranteed mortgage securities (Note 3)	**49,828,015**	50,614,252
Other receivables	**2,429,174**	2,261,237
Furniture and equipment, at cost, less accumulated depreciation	**1,082,557**	1,059,920
Land	**220,409**	-
Deferred financing costs, net	**12,610,116**	13,188,460
Total Noncurrent Assets	**1,650,411,982**	1,635,119,453
Total Assets	**2,212,732,832**	2,186,649,506
Liabilities		
Current Liabilities		
Bonds payable (Notes 5 and 6)	**231,185,915**	330,792,195
Accrued interest payable	**13,793,773**	12,823,825
Accounts payable and other liabilities	**3,362,258**	3,739,346
Multifamily escrows and reserves	**21,478,484**	21,245,306
Total Current Liabilities	**269,820,430**	368,600,672
Noncurrent Liabilities		
Bonds payable (Notes 5 and 6)	**1,588,155,085**	1,492,976,380
Accounts payable and other liabilities	**2,512,385**	864,373
Total Noncurrent Liabilities	**1,590,667,470**	1,493,840,753
Total Liabilities	**1,860,487,900**	1,862,441,425
Net Assets		
Unrestricted	**-**	-
Invested in Capital Assets	**1,302,966**	1,059,920
Restricted by Bond Indentures	**311,264,899**	288,094,320
Restricted by HOME Program	**39,677,067**	35,053,841
Total Net Assets	**$ 352,244,932**	$ 324,208,081

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30

Operating Revenues	**2007**	2006
Interest income on mortgage loans	**$ 66,124,877**	$ 60,344,526
Interest on guaranteed mortgage securities	**2,370,740**	2,409,604
Interest on investments	**36,441,101**	28,868,859
Net increase (decrease) in the fair market value of investments	**5,572,817**	(11,682,923)
HUD contributions	**27,654,203**	27,335,584
Other income	**10,121,569**	9,359,477
Total Operating Revenues	**148,285,307**	116,635,127
Operating Expenses		
Interest	**77,607,580**	71,117,616
Housing assistance payments	**21,938,181**	22,290,369
Servicer and other fees	**5,819,743**	3,898,629
General and administrative	**5,461,212**	5,216,024
Amortization of deferred financing costs	**3,132,970**	1,675,090
Other housing programs	**6,288,770**	6,130,147
Total Operating Expenses	**120,248,456**	110,327,875
Change in net assets	**28,036,851**	6,307,252
Net Assets, beginning of year	**324,208,081**	317,900,829
Net Assets, end of year	**$ 352,244,932**	$ 324,208,081

See Notes to Financial Statements.

Statements of Cash Flows

For the Years Ended June 30

	2007	2006
Cash Flows From Operating Activities		
Receipts from loan payments	**$ 202,845,788**	$ 211,266,514
Receipts for program fees	**9,462,868**	11,550,820
Receipts from federal housing programs	**27,654,203**	27,335,584
Payments for loan programs	**(279,508,559)**	(240,800,769)
Payments for operating expenses	**(7,739,872)**	(6,664,207)
Payments to employees	**(3,160,638)**	(3,030,325)
Payments for federal housing programs	**(21,938,181)**	(22,290,369)
Payments for other housing programs	**(4,497,695)**	(4,798,541)
Net Cash Used in Operating Activities	**(76,882,086)**	(27,431,293)
Cash Flows From Noncapital Financing Activities		
Proceeds from sale of bonds	**584,857,417**	823,622,187
Principal paid on bonds	**(584,601,119)**	(317,703,165)
Interest paid on bonds	**(81,321,507)**	(67,770,321)
Bond issuance costs paid	**(2,554,626)**	(4,417,709)
Net Cash Provided by (Used in) Noncapital Financing Activities	**(83,619,835)**	433,730,992
Cash Flows From Capital and Related Financing Activities		
Purchase of fixed assets	**(565,166)**	(231,167)
Net Cash Used in Capital and Related Financing Activities	**(565,166)**	(231,167)
Cash Flows From Investing Activities		
Purchase of investment securities	**(599,567,077)**	(809,710,118)
Proceeds from sale and maturities of investment securities	**836,862,978**	377,282,239
Interest received on investments	**45,384,164**	23,574,756
Net Cash Provided by (Used in) Investing Activities	**282,680,065**	(408,853,123)
Change in cash and cash equivalents	**121,612,978**	(2,784,591)
Cash and cash equivalents, beginning of year	**124,859,954**	127,644,545
Cash and cash equivalents, end of year	**$ 246,472,932**	$ 124,859,954

	2007	2006
Reconciliation of Operating Income to Cash Flows Used In Operating Activities		
Operating income	**$ 28,036,851**	$ 6,307,252
Adjustments to reconcile operating income to net cash provided by operating activities		
Interest on bonds payable	**77,607,580**	71,117,616
Net increase in fair market value of investments	**(5,572,817)**	11,682,923
Interest from investments	**(38,811,841)**	(31,278,463)
Amortization of deferred financing costs	**3,132,970**	1,675,090
Changes in assets and liabilities		
Loan interest receivable	**(523,421)**	25,592
Accounts payable and other liabilities	**1,270,924**	225,113
Mortgage loans receivable	**(142,264,227)**	(89,904,373)
Other receivables	**(658,701)**	2,191,343
Other assets	**424,406**	45,993
Multifamily escrows and reserves	**3,502**	(327,000)
Depreciation	**298,519**	318,973
Bad debt expense	**174,169**	488,648
Net Cash Used In Operating Activities	**$ (76,882,086)**	$ (27,431,293)

See Notes to Financial Statements.

Notes to Financial Statements

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 $256,235,000 for 2007. 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, 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.

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.

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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.

The Homeownership Education Resource Organization (HERO) was created to develop, provide, organize and coordinate on a statewide-basis, educational programs for first-time home buyers whose income levels qualify them for the Authority’s Homeownership or similar programs. As required by GASB Statement 14, because HERO's Board of Commissioners is comprised entirely of members from the Authority's Board, HERO's financial statements are blended with the Authority's General Operating Account. Separately issued financial statements for HERO are not available.

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.

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.

Inventory:

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

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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 $1,675,012 and $20,123 at June 30, 2007 and 2006, 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, 2007 and 2006 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, 2007 and June 30, 2006 of the Authority's deposits of $2,284,605 (carrying value of $1,766,413) and $2,682,381 (carrying value of $2,298,410) 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.

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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, 2007 and 2006, 10.0 percent and 6.0 percent, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2007, and 2006, the Authority had investments maturing as follows:

		2007 Investment Maturities (in Years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**Greater than 10**
U.S. Govt 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**

		2006 Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	Greater than 10
U.S. Govt Obligations	$ 49,523,310	$ 2,182,448	$ 26,139,127	$ 14,841,584	$ 6,360,151
U.S. Agency Obligations	524,659,640	325,867,971	129,995,846	35,903,727	32,892,096
Mutual Funds	100,358,715	100,358,715	-	-	-
Investment Agreements	238,438,698	38,892,359	194,565,144	-	4,981,195
State Obligations	20,316,301	1,891,263	11,629,118	6,795,920	-
Total	$ 933,296,664	$ 469,192,756	$ 362,329,235	$ 57,541,231	$ 44,233,442

At June 30, 2007 and 2006 certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2007			2006		
	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	**$ 114,861,250**	**$ 4,352,260**	**$ 611,416**	$ 115,311,000	$ 4,352,260	$ 611,416
Mortgage Reserve for debt service, bond redemption premiums and potential loan losses	**45,873,354**	**-**	**-**	48,230,968	-	-
Total	**$ 160,734,604**	**$ 4,352,260**	**$ 611,416**	$ 163,541,968	$ 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. 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	**2007**	2006
Aaa	**$ 706,763,302**	$ 753,995,609
Aa	**84,413,410**	128,605,249
MIG1	**-**	488,795
Unrated	**8,846,165**	683,701
Total	**$ 800,022,877**	$ 883,773,354

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Concentration of Credit Risk: The Authority places no limit on the amount that the Authority may invest in any one issuer. At June 30, 2007 the Authority held 5 percent or more of their investments with the following issuers: Federal Home Loan Bank (29.27%), Federal National Mortgage Association (10.60%), Federal Home Loan Mortgage Corporation (8.52%), Depfa (8.30%), and Pallas Capital Corporation Investment Agreement (9.18%) At June 30, 2006, the following issuers held 5 percent or more of the Authority's investments: Federal Home Loan Bank (6.29%), Pallas Capital Corporation Investment Agreement (7.58%), Societe Generale Investment Agreement (13.31%), Federal National Mortgage Association (9.79%) and Federal Home Loan Mortgage Corporation (37.79%).

Note 4. Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	2007	2006
Homeownership Mortgage Program Bonds	**$ 1,221,643,709**	$ 1,084,322,804
Multiple Purpose Bonds	**38,206,256**	39,252,587
Other (General Operating Account)	**45,523,369**	39,533,717
Total	**$ 1,305,373,334**	$ 1,163,109,108

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, 2007 and 2006 is $976,086 and $574,797 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):

			2007			2006
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
1977 Series A	2008	6.125%	$ -	$ 5	**$ 5**	$ 5
1978 Series A	2009	5.9%	-	5	**5**	5
1978 Series B	2009	6.75%	-	5	**5**	5
1979 Series A	2010	7.1%	-	5	**5**	5
1980 Series B	2011	8.25% to 8.5%	-	5	**5**	5
1997 Series B	2008-2017	4.7% to 4.95%	-	-	**-**	4,435
1997 Series C	2008-2018	5.0% to 5.375%	1,370	5,160	**6,530**	12,745
1997 Series D	2018-2024	5.375% to 5.4%	-	7,815	**7,815**	8,510
1997 Series E-1	2008-2030	4.85% to 5.4%	3,720	35,375	**39,095**	39,910
1997 Series E-2	2008-2030	4.7% to 5.3%	2,870	27,310	**30,180**	30,805
1997 Series E-3	2008-2030	4.7% to 5.35%	1,540	14,615	**16,155**	16,490
1997 Series E-4	2008-2011	4.95% to 5.25%	2,030	-	**2,030**	7,295
1997 Series J	2017-2029	5.55% to 5.65%	-	82,920	**82,920**	91,910
1998 Series A	2018-2028	5.3% to 5.4%	-	13,230	**13,230**	13,750
1998 Series F	2008-2016	4.5% to 4.8%	-	-	**-**	1,940
1998 Series G	2029	5.35%	-	7,905	**7,905**	8,285
1999 Series D	2008-2019	4.9% to 5.45%	3,000	4,170	**7,170**	13,580
2001 Series A	2028	4.55%	-	690	**690**	4,025
2001 Series D	2008-2012	4.45% to 4.9%	4,485	-	**4,485**	16,365
2001 Series E	2021-2025	4.72% to 5.45%	-	6,535	**6,535**	10,280
2001 Series F	2030	4.85%	-	20,000	**20,000**	20,000

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2002 Series A	2008-2022	4.15% to 5.35%	-	-	**-**	1,125
2002 Series B	2025	4.75%	-	2,170	**2,170**	3,245
2002 Series C	2008-2033	4.35% to 5.47%	1,505	12,850	**14,355**	14,620
2002 Series D	2008-2014	4.1% to 4.85%	9,145	-	**9,145**	10,250
2002 Series E	2021-2025	4.65% to 5.45	-	12,045	**12,045**	15,300
2002 Series F	2008-2014	3.4% to 4.3%	8,800	-	**8,800**	9,890
2002 Series G	2022-2033	5.2% to 5.3%	-	35,175	**35,175**	38,295
2002 Series H	2008-2014	3.2% to 4.35	12,965	-	**12,965**	14,710
2002 Series I	2023-2033	3.75% to 5.25%	-	24,280	**24,280**	26,190
2003 Series A	2008-2023	2.8% to 4.75%	9,860	1,455	**11,315**	12,245
2003 Series B	2023-2034	4.95% to 5.05%	-	30,290	**30,290**	31,890
2003 Series C-1	2032	3.97% (2)	-	26,500	**26,500**	26,500
2003 Series C-2	2032	3.9% (2)	-	26,400	**26,400**	26,400
2003 Series D	2008-2022	2.5% to 4.8%	8,640	12,710	**21,350**	23,430
2003 Series E	2028	5.0%	-	8,150	**8,150**	10,030
2003 Series F	2034	3.82	-	20,000	**20,000**	20,000
2003 Series G	2008-2017	2.7% to 4.55	13,740	5,080	**18,820**	20,375
2003 Series H	2022-2028	4.85% to 5%	-	24,510	**24,510**	27,000
2003 Series I	2034	4.03% (2)	-	28,000	**28,000**	28,000
2004 Series A	2008-2017	3.0% to 4.7%	22,625	-	**22,625**	24,485
2004 Series B	2021-2027	4.95% to 5%	-	29,200	**29,200**	33,865
2004 Series C	2034	3.81%	-	34,000	**34,000**	34,000
2004 Series D	2032	3.71%	-	11,890	**11,890**	11,890
2004 Series E	2008-2017	2.55% to 4.25%	22,875	-	**22,875**	24,800
2004 Series F	2022-2028	4.6% to 5.25%	-	34,585	**34,585**	37,635
2004 Series G	2034	3.79%	-	33,000	**33,000**	33,000
2005 Series A	2008-2018	3.0% to 4.2%	24,745	-	**24,745**	26,605
2005 Series B	2023-2027	4.5% to 5.25%	-	27,065	**27,065**	29,930
2005 Series C	2035	3.81%	-	41,000	**41,000**	41,000
2005 Series D	2031	3.71%	-	6,925	**6,925**	6,925
2005 Series E	2008-2018	3.05% to 4.1%	25,145	-	**25,145**	27,000
2005 Series F	2027-2030	4.6% to 5.0%	-	44,330	**44,330**	46,345
2005 Series G	2035	3.79%	-	25,000	**25,000**	25,000
2005 Series H	2006	4.5%	-	-	**-**	31,550
2005 Series I	2006	4.5%	-	-	**-**	268,450
2005 Series J	2010-2018	3.7% to 4.55%	33,355	-	**33,355**	33,355
2005 Series K	2008-2036	3.55% to 5.05%	5,270	107,330	**112,600**	116,620
2006 Series A	2008-2019	3.7% to 4.5%	32,245	-	**32,245**	33,445
2006 Series B	2026-2031	4.9% to 6%	-	56,280	**56,280**	56,555
2006 Series C	2037	3.79%	-	45,000	**45,000**	45,000
2006 Series D	2013-2019	3.7% to 4.0%	17,055	-	**17,055**	-
2006 Series E	2008-2036	3.6% to 4.625%	9,665	73,255	**82,920**	-
2006 Series F	2008	4.5%	-	100,000	**100,000**	-
2006 A Drawdown	2045	4.72% to 4.82%	5,245	-	**5,245**	47,726
2006 A-2 Drawdown	2045	4.3%	-	-	**-**	22,865
2006 A-3 Drawdown	2045	4.3%	-	11,383	**11,383**	-
2006 A-4 Drawdown	2045	4.3%	-	31,550	**31,550**	-
2006 A-5 Drawdown	2045	4.3%	-	17,350	**17,350**	-
2006 A-6 Drawdown	2045	4.3%	-	10,030	**10,030**	-
2007 Series A	2013-2019	3.85% to 4.2%	14,105	-	**14,105**	-
2007 Series B	2008-2037	3.75% to 4.85%	11,160	74,735	**85,895**	-
2007 Series C	2008	4.5%	-	100,000	**100,000**	-
Plus unamortized premium					**13,336**	13,614
Less unamortized loss on refunding					**(1,226)**	(1,321)
Total Homeownership Mortgage Program Bonds					**$ 1,728,543**	$1,730,184

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

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

			2007			2006
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term(1)**	**Total Outstanding**	Total Outstanding
2002 Series A	2007-2020	3.75% to 5.15%	$ 8,660	$ 16,280	**$ 24,940**	$ 26,205
2002 Series B	2007-2021	3.1% to 5.1%	8,960	6,040	**15,000**	16,000
Less unamortized loss on refunding					**(902)**	(968)
Total Multifamily Trust Bonds					**$ 39,038**	$ 41,237

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

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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):

Bond Issue	Maturity Date	Interest Rate	2007 Serial	2007 Term(1)	2007 Total Outstanding	2006 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	2,340	**2,445**	2,485
Series 2004 A	2007-2033	6.15%	3,134	-	**3,134**	3,180
Total Multifamily Housing Revenue Bonds					**$ 25,074**	$ 25,160

(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):

Bond Issue	Maturity Date	Interest Rate	2007 Term	2007 Total Outstanding	2006 Total Outstanding
1995 Series A	2010	7.5% to 8.5%	$ 2,078	**$ 2,078**	$ 2,179
1996 Series B	2012	3.75%	1,392	**1,392**	1,418
Series 1999-1	2015	4.0%	1,317	**1,317**	1,345
Series 1999-2	2015	6.0%	1,449	**1,449**	1,488
Series 1999-3	2015	6.0%	1,545	**1,545**	1,577
Series 2000-1	2015	7.5%	773	**773**	785
Series 2002-1	2017	7.0%	4,102	**4,102**	4,171
Total Multifamily Mortgage Pass-Through Bonds			$ 12,656	**$ 12,656**	$ 12,963

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

Bond Issue	Maturity Date	Interest Rate	2007 Serial	2007 Term (1)	2007 Total Outstanding	2006 Total Outstanding
Series 1999	2009-2040	5.4% to 5.8%	$ -	$ 3,075	**$ 3,075**	$ 3,105
Series 2000	2032	5.85%	-	3,390	**3,390**	3,495
Series 2001	2008-2043	3.9% to 5.35%	265	7,300	**7,565**	7,625
Total Multifamily Risk Sharing Bonds					**14,030**	14,225
TOTAL BONDS OUTSTANDING					**$ 1,819,341**	$ 1,823,769

(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, 2007and 2006:

	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

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amounts Due Within One Year
Homeownership Mortgage Program Bonds	$ 1,224,322,683	$ 823,160,708	$ 317,299,121	$ 1,730,184,270	$ 327,945,000
Multiple Purpose Bonds	43,385,487	-	2,148,530	41,236,957	2,265,000
Multifamily Housing Revenue Bonds	23,368,192	1,848,550	57,113	25,159,629	86,286
Multifamily Mortgage Pass-Through Bonds	13,250,772	-	288,053	12,962,719	300,909
Multifamily Risk Sharing Bonds	14,410,000	-	185,000	14,225,000	195,000
	$ 1,318,737,134	$ 825,009,258	$ 319,977 817	$ 1,823,768,575	$ 330,792,195

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Short-term debt is included in the above table with $200 million, $300 million and $0 short term debt outstanding at June 30, 2007, 2006, and 2005 respectively. The Authority issued $200 million and $300 million of short term debt during fiscal year 2007 and 2006, respectively, 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	Homeownership Mortgage Program Bonds		Multiple Purpose Bonds		Multifamily Housing Revenue Bonds	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 228,220,000	$ 77,980,082	$ 2,345,000	$ 1,815,565	$ 89,176	$ 1,067,697
2009	29,195,000	68,717,594	2,425,000	1,729,684	97,247	1,060,936
2010	30,280,000	67,774,413	2,520,000	1,634,888	100,510	1,057,176
2011	34,455,000	66,425,504	2,615,000	1,531,382	108,976	1,052,000
2012	35,455,000	65,011,992	2,730,000	1,419,740	112,659	1,047,527
2013-2017	190,825,000	301,288,769	15,665,000	5,008,864	677,106	5,126,947
2018-2022	234,820,000	250,795,866	11,640,000	1,343,071	910,501	4,904,152
2023-2027	266,795,000	189,055,132	-	-	1,211,083	4,602,860
2028-2032	282,200,000	119,994,288	-	-	8,100,543	3,874,763
2033-2037	308,630,000	43,032,614	-	-	13,665,542	1,173,857
2038-2042	-	16,358,941	-	-	-	-
2043-2047	75,558,000	9,537,487	-	-	-	-
Total	$ 1,716,433,000	$ 1,275,972,682	$ 39,940,000	$ 14,483,194	$ 25,073,343	$ 24,967,915

Year End	Multifamily Mortgage Pass-Through Bonds		Multifamily Risk Sharing Bonds	
June 30	Principal	Interest	Principal	Interest
2008	$ 326,739	$ 744,860	$ 205,000	$ 776,200
2009	1,131,758	700,424	220,000	765,378
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
2013-2017	9,353,675	1,705,764	1,080,000	3,483,237
2018-2022	-	-	1,465,000	3,136,993
2023-2027	-	-	1,975,000	2,669,550
2028-2032	-	-	2,795,000	2,036,343
2033-2037	-	-	2,205,000	1,297,602
2038-2042	-	-	2,735,000	615,535
2043-2047	-	-	720,000	38,520
Total	$ 12,655,886	$ 4,874,106	$ 14,030,000	$ 17,044,374

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.

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Swap Terms:

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2007, 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	Aa3	$ 184,327
2004 G	33,000,000	10/20/04	3.897%	63.4% of LIBOR plus 0.29%	5/01/2034	Aaa	1,278,548
2005 C	41,000,000	4/13/05	3.930%	63.3% of LIBOR plus 0.30%	5/01/2035	Aaa	1,414,402
2005 D	6,925,000	4/13/05	3.290%	57.3% of LIBOR plus 0.40%	5/01/2015	Aa3	127,265
2003 F	13,000,000	6/21/05	3.763%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	734,182
2003 I	28,000,000	6/21/05	3.763%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	1,588,012
2004 C	34,000,000	6/21/05	3.745%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	1,978,899
2005 G	25,000,000	7/19/05	3.773%	63.8% of LIBOR plus 0.29%	5/01/2035	Aa3	1,355,327
2006 C	45,000,000	6/14/06	4.419%	64% of LIBOR plus 0.29%	5/01/2037	Aa3	(443,524)

* 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, 2007. 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. As of June 30, 2007, the Authority has a net credit risk exposure to its counterparty because the combined swap position had a positive net fair value.

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, 2007, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 3.67% per annum, while the weighted average interest rate on the swaps was 3.66% 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.

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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, 2007:

Year End	**Variable-Rate Bond**		**Interest Rate**	
June 30	**Principal**	**Interest**	**Swap – Net**	**Total**
2008	$ -	$ 9,569,968	$ 561,117	$ 10,131,085
2009	-	9,569,968	561,117	10,131,085
2010	-	9,569,968	561,117	10,131,085
2011	-	9,569,968	561,117	10,131,085
2012	-	9,569,968	561,117	10,131,085
2013-2017	-	47,849,838	2,887,206	50,737,044
2018-2022	-	47,849,838	2,929,850	50,779,688
2023-2027	255,000	47,849,838	2,929,850	51,034,688
2028-2032	72,075,000	44,648,023	2,772,681	119,495,704
2033-2037	180,095,000	13,947,571	1,115,354	195,157,925
Total	$ 252,425,000	$ 249,994,948	$ 15,440,526	$ 517,860,474

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.

(continued on next page)

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:

	2007	2006
Bond and note reserve	$ 4,132,463	$ 4,148,983
Program operations reserve	1,904,737	2,321,807
Total	$ 6,037,200	$ 6,470,790

Note 8. Commitments:

As of June 30, 2007, the Authority had the following Homeownership Mortgage Program Bond commitments:
Commitments to purchase Homeownership mortgage loans aggregating $91,902,534.

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, 2007 and 2006, for the Homeownership Mortgage Program Bonds and the Multiple Purpose Bonds follows:

	2007		2006	
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)	$ 8,241,805	$ (15,825)	$ 6,170,020	$ 6,908
Other current assets	534,244,122	14,142,904	525,541,661	15,357,786
Noncurrent assets	1,461,689,146	71,334,690	1,450,996,940	68,963,532
Total Assets	$ 2,004,175,073	$ 85,461,769	$ 1,982,708,621	$ 84,328,226
Liabilities and Net Assets				
Current liabilities	$ 242,045,573	$ 2,654,367	$ 340,947,048	$ 2,586,119
Noncurrent liabilities	1,502,018,477	36,693,428	1,402,259,393	38,971,957
Total Liabilities	1,744,064,050	39,347,795	1,743,206,441	41,558,076
Net assets:				
Restricted by bond indentures	260,111,023	46,113,974	239,502,180	42,770,150
Total liabilities and net assets	$ 2,004,175,073	$ 85,461,769	$ 1,982,708,621	$ 84,328,226
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	$ 104,269,454	$ 5,767,497	$ 75,401,127	$ 4,230,872
Operating Expenses	82,660,613	2,423,673	72,643,090	2,441,833
Operating Income	21,608,841	3,343,824	2,758,037	1,789,039
Transfers Out	(1,000,000)	-	-	-
Change in net assets	20,608,841	3,343,824	2,758,037	1,789,039
Beginning net assets	239,502,182	42,770,150	236,744,145	40,981,111
Ending net assets	$ 260,111,023	$ 46,113,974	$ 239,502,182	$ 42,770,150
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ (79,635,624)	$ 3,878,829	$ (31,451,714)	$ 4,381,623
Noncapital financing activities	(77,231,168)	(4,216,384)	438,943,074	(4,172,632)
Investing activities	284,162,609	(4,528,415)	(412,645,749)	1,960,049
Net change	127,295,817	(4,865,970)	(5,154,389)	2,169,040
Beginning cash and cash equivalents	111,572,379	8,366,037	116,726,768	6,196,997
Ending cash and cash equivalents	$ 238,868,196	$ 3,500,067	$ 111,572,379	$ 8,366,037

(continued on next page)

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.

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 $152,434, $148,161 and $141,086 for the years ended June 30, 2007, 2006 and 2005, 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 period ended June 30, 2007, 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 Event:

In August of 2007, the Authority issued $200,000,000 of Homeownership Mortgage Bonds Series 2007 DE and F. The Bonds will mature on May 1, 2008, through May 1, 2037, with interest rates from 3.80% to 5.75%.

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SUPPLEMENTARY INFORMATION

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

Supplemental Schedule of Net Assets

As of June 30, 2007

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	$ 2,973,228	$ 238,868,196	$ 3,500,067	$ 663,270	$ 316	$ 467,855	**$ 246,472,932**
Investment in securities	2,710,932	223,057,590	7,618,550	253,000	-	-	**233,640,072**
Mortgage loans receivable	2,738,760	61,705,071	2,228,255	-	-	-	**66,672,086**
Guaranteed mortgage securities	-	-	-	252,393	326,739	201,179	**780,311**
Interest receivable	320,479	10,613,265	796,032	11,354	36	80,535	**11,821,701**
Other receivables	821,266	-	-	-	-	-	**821,266**
Other assets	2,112,482	-	-	-	-	-	**2,112,482**
Due from (to) other funds	(8,218,980)	8,241,805	(15,825)	(2,000)	-	(5,000)	**-**
Total Current Assets	3,458,167	542,485,927	14,127,079	1,178,017	327,091	744,569	**562,320,850**
Noncurrent Assets							
Investment in securities	22,547,350	287,285,364	34,938,597	174,017	-	595,135	**345,540,463**
Mortgage loans receivable	42,784,609	1,159,938,638	35,978,001	-	-	-	**1,238,701,248**
Guaranteed mortgage securities	-	-	-	24,213,169	12,329,148	13,285,698	**49,828,015**
Other receivables	-	2,429,174	-	-	-	-	**2,429,174**
Furniture and equipment, at cost, less accumulated depreciation	1,082,557	-	-	-	-	-	**1,082,557**
Land	220,409	-	-	-	-	-	**220,409**
Deferred financing costs, net	-	12,035,970	418,092	156,054	-	-	**12,610,116**
Total Noncurrent Assets	66,634,925	1,461,689,146	71,334,690	24,543,240	12,329,148	13,880,833	**1,650,411,982**
Total Assets	70,093,092	2,004,175,073	85,461,769	25,721,257	12,656,239	14,625,402	**2,212,732,832**
Liabilities							
Current Liabilities							
Bonds payable	-	228,220,000	2,345,000	89,176	326,739	205,000	**231,185,915**
Accrued interest payable	-	13,032,740	309,367	165,376	48,112	238,178	**13,793,773**
Accounts payable and other liabilities	2,470,629	792,833	-	-	-	98,796	**3,362,258**
Multifamily escrows and reserves	21,090,946	-	-	254,858	-	132,680	**21,478,484**
Total Current Liabilities	23,561,575	242,045,573	2,654,367	509,410	374,851	674,654	**269,820,430**
Noncurrent Liabilities							
Bonds payable	-	1,500,323,342	36,693,428	24,984,167	12,329,148	13,825,000	**1,588,155,085**
Accounts payable and other liabilities	817,250	1,695,135	-	-	-	-	**2,512,385**
Total Noncurrent Liabilities	817,250	1,502,018,477	36,693,428	24,984,167	12,329,148	13,825,000	**1,590,667,470**
Total Liabilities	24,378,825	1,744,064,050	39,347,795	25,493,577	12,703,999	14,499,654	**1,860,487,900**
Net Assets							
Invested in Capital Assets	1,302,966	-	-	-	-	-	**1,302,966**
Restricted by Bond Indentures	4,734,234	260,111,023	46,113,974	227,680	(47,760)	125,748	**311,264,899**
Restricted by HOME Program	39,677,067	-	-	-	-	-	**39,677,067**
Total Net Assets	$ 45,714,267	$ 260,111,023	$ 46,113,974	$ 227,680	$ (47,760)	$ 125,748	**$ 352,244,932**

See Accompanying Independent Auditor's Report.

Supplemental Schedule of Operations and Changes in Net Assets

For the Year Ended June 30, 2007

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	$ 136,443	$ 62,736,756	$ 3,251,678	$ -	$ -	$ -	**$ 66,124,877**
Interest on guaranteed mortgage securities	-	-	-	1,034,526	749,423	586,791	**2,370,740**
Interest on investments	391,859	33,989,306	1,953,802	37,110	71	68,953	**36,441,101**
Net increase in fair value of investments	13,282	4,995,166	562,017	2,352	-	-	**5,572,817**
HUD contributions	27,654,203	-	-	-	-	-	**27,654,203**
Fee, grant and other income	7,573,343	2,548,226	-	-	-	-	**10,121,569**
Total Operating Revenues	35,769,130	104,269,454	5,767,497	1,073,988	749,494	655,744	**148,285,307**
Operating Expenses							
Interest	-	73,025,389	2,004,103	1,047,086	748,559	782,443	**77,607,580**
Housing assistance payments	21,938,181	-	-	-	-	-	**21,938,181**
Servicer and other fees	-	5,819,743	-		-	-	**5,819,743**
General and administrative	4,605,724	495,914	359,574	-	-	-	**5,461,212**
Amortization of deferred financing costs	-	3,066,386	59,996	6,588	-	-	**3,132,970**
Other housing programs	6,035,589	253,181	-	-	-	-	**6,288,770**
Total Operating Expenses	32,579,494	82,660,613	2,423,673	1,053,674	748,559	782,443	**120,248,456**
Net Income Before Interfund Transfers	3,189,636	21,608,841	3,343,824	20,314	935	(126,699)	**28,036,851**
Interfund Transfers	1,000,000	(1,000,000)	-	-	-	-	**-**
Changes in net assets	4,189,636	20,608,841	3,343,824	20,314	935	(126,699)	**28,036,851**
Net Assets, beginning of year	41,524,631	239,502,182	42,770,150	207,366	(48,695)	252,447	**324,208,081**
Net Assets, end of year	$ 45,714,267	$ 260,111,023	$ 46,113,974	$ 227,680	$ (47,760)	$ 125,748	**$ 352,244,932**