INDEPENDENT AUDITOR'S REPORT

To the Chairman and Members of
the Board of Commissioners
South Dakota Housing Development Authority
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, 2005 and 2004, 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 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, 2005 and 2004, 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 2-5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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, 2005 and 2004, taken as a whole. The supplementary information set forth on pages 22 and 23 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
August 19, 2005

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Management's Discussion and Analysis
June 30, 2005

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, 2005 (FY 2005). 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 decreased $85.2 million (or 4.8%) as of June 30, 2005
- Total liabilities of the Authority decreased $101.2 million (or 7.0%) as of June 30, 2005
- Net assets of the Authority increased $16.0 million (or 5.3%) as of June 30, 2005
- Cash and cash equivalents of the Authority decreased $86.4 million (or 40.4%) as of June 30, 2005

- Investments in securities decreased \$73.2 million (or 15.7%) as of June 30, 2005
- Mortgage loans receivable increased \$74.8 million (or 7.5%) as of June 30, 2005
- Debt outstanding of the Authority decreased \$101.4 million (or 7.1%) as of June 30, 2005

Changes in Net Assets
(in millions of dollars)

	FY 2005	FY 2004	% Change
Revenues:			
Interest on mortgages	\$ 58.1	\$ 59.1	(1.7%)
Investment income	19.8	17.5	13.1%
Increase (decrease) in fair market value of investments	0.4	(11.1)	103.6%
Other income	34.6	35.5	(2.5%)
Total Revenues	112.9	101.0	11.8%
Expenses:			
Interest	58.1	60.3	(3.6%)
Servicer Fees	3.4	1.7	100.0%
General & Administrative	5.2	4.9	6.1%
Other	30.2	32.0	(5.6%)
Total Expenses	96.9	98.9	(2.0%)
Change in Net Assets	\$ 16.0	\$ 2.1	662.0%

Analysis:

Homeownership mortgage loan purchases for FY 2005 were \$232.1 million, a \$10.6 million increase over the previous period. Loan prepayments for the year were in excess of \$123 million. Short-term reinvestment rates continued to be low in FY 2005. Interest earned on bond proceeds held until mortgage loans were purchased and on scheduled payments and prepayments on mortgage loans held until bond payments were made, was less than interest paid on the respective bonds outstanding.

During FY 2005, the Authority continued established procedures to reduce the effects of the low short term investment earnings compared to the interest expense on bonds payable. Commitments for mortgage loans were pre-funded from other available funds of the Authority before the bonds were issued. When bonds were issued, the proceeds of the bonds were used to reimburse the Authority rather than being invested at low short term interest rates. In addition, the Authority utilized a bond program, under which prepayments are used to redeem high interest rate bonds and then are refunded with low interest rate bonds on a more frequent basis.

Financial Statement Elements

Changes in Assets and Liabilities
(in millions of dollars)

	FY 2005	FY 2004	% Change
Assets:			
Cash and equivalents	$ 127.6	$ 214.0	(40.4%)
Investments	393.0	466.2	(15.7%)
Mortgages & Securities	1,127.8	1,053.2	7.1%
Interest Receivable	8.2	8.3	(1.2%)
Deferred Costs	11.3	11.7	(3.4%)
Capital Assets	1.1	1.3	(15.4%)
Other	3.0	2.6	15.4%
Total Assets	1,672.0	1,757.3	(4.9%)
Liabilities:			
Current bonds payable	27.3	27.2	0.4%
Interest payable	9.5	8.9	7.0%
Other	26.0	26.4	(1.5%)
Noncurrent bonds payable	1,291.4	1,392.9	(7.3%)
Total Liabilities	1,354.2	1,455.4	(7.0%)
Net Assets:			
Unrestricted	0.0	0.0	-
Invested in Capital Assets	1.1	1.3	(15.4%)
Restricted by Bond Indentures	285.6	271.8	5.1%
Restricted by HOME Program	31.2	28.8	8.3%
Total Net Assets	$ 317.9	$ 301.9	5.3%

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, 2005, the Authority had $1,318.7 million in bonds outstanding, a 7.1% decrease over the previous year.

The Authority issued a total of $345.7 million in bonds in fiscal year 2005. Of that total, $210.6 million was issued as long term debt for the origination of single family loans, $1.4 million was issued as long term debt for a multi-family loan and $133.7 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 $446.6 million in bonds in fiscal year 2005. $421.6 million was redeemed from prepayments and excess reserves and $25.0 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 and Note 12, Subsequent Events.

Overview

Interest from mortgage loan payments and interest income on investments are the major source of revenue for the Authority. Interest rates continue to be at lower levels and if they continue at such levels, the Authority would expect those revenues to be stable. If short term interest rates increase the Authority would anticipate interest from mortgage loan payments and interest payments on investments to increase as mortgage loans are purchased, fewer loans are prepaid and funds are invested in securities with higher rates.

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	**2005**	2004
Current Assets		
Cash and cash equivalents (Note 3)	**$ 127,644,545**	$ 214,025,567
Investment in securities (Note 3)	**122,723,800**	40,303,328
Mortgage loans receivable (Note 4)	**24,648,871**	24,754,764
Guaranteed mortgage securities (Note 3)	**641,382**	541,954
Interest receivable	**8,226,444**	8,342,434
Other receivables	**392,164**	288,022
Other assets	**2,582,881**	2,268,341
Total Current Assets	**286,860,087**	290,524,410
Noncurrent Assets		
Investment in securities (Note 3)	**270,282,520**	425,883,928
Mortgage loans receivable (Note 4)	**1,048,555,864**	973,614,836
Guaranteed mortgage securities (Note 3)	**49,539,491**	49,874,893
Other receivables	**4,390,918**	4,390,918
Furniture and equipment, at cost, less accumulated depreciation	**1,103,104**	1,308,060
Deferred financing costs, net	**11,333,421**	11,690,972
Total Noncurrent Assets	**1,385,205,318**	1,466,763,607
Total Assets	**1,672,065,405**	1,757,288,017
Liabilities		
Current Liabilities		
Bonds payable (Notes 5 and 6)	**27,253,053**	27,165,433
Accrued interest payable	**9,476,530**	8,870,319
Accounts payable and other liabilities	**3,501,606**	3,701,251
Multifamily escrows and reserves	**21,572,306**	22,011,382
Total Current Liabilities	**61,803,495**	61,748,385
Noncurrent Liabilities		
Bonds payable (Notes 5 and 6)	**1,291,484,081**	1,392,956,891
Accounts payable and other liabilities	**877,000**	700,000
Total Noncurrent Liabilities	**1,292,361,081**	1,393,656,891
Total Liabilities	**1,354,164,576**	1,455,405,276
Net Assets		
Unrestricted	**-**	-
Invested in Capital Assets	**1,103,104**	1,308,060
Restricted by Bond Indentures	**285,560,334**	271,788,142
Restricted by HOME Program	**31,237,391**	28,786,539
Total Net Assets	**$ 317,900,829**	$ 301,882,741

See Notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30

Operating Revenues		**2005**		2004
Interest income on mortgage loans	**$**	**58,132,854**	$	59,116,301
Interest on guaranteed mortgage securities		**2,373,429**		2,503,823
Interest on investments		**17,396,223**		14,999,080
Net increase (decrease) in the fair market value of investments		**404,410**		(11,138,411)
HUD contributions		**25,755,906**		26,885,239
Other income		**8,816,160**		8,585,400
Total Operating Revenues		**112,878,982**		100,951,432
Operating Expenses				
Interest		**58,100,140**		60,352,206
Housing assistance payments		**22,372,779**		21,963,891
Servicer and other fees		**3,394,822**		1,736,993
General and administrative		**5,236,727**		4,915,462
Amortization of deferred financing costs		**2,336,978**		4,032,200
Other housing programs		**5,419,448**		5,857,950
Total Operating Expenses		**96,860,894**		98,858,702
Change in net assets		**16,018,088**		2,092,730
Net Assets, beginning of year		**301,882,741**		299,790,011
Net Assets, end of year	**$**	**317,900,829**	$	301,882,741

Statements of Cash Flows

For the Years Ended June 30

	2005	2004
Cash Flows From Operating Activities		
Receipts from loan payments	**$ 223,729,902**	$ 317,465,429
Receipts for program fees	**8,712,018**	8,768,709
Receipts from federal housing programs	**25,755,906**	26,885,239
Payments for loan programs	**(240,221,502)**	(228,772,185)
Payments for operating expenses	**(6,585,644)**	(5,364,435)
Payments to employees	**(2,895,458)**	(2,222,091)
Payments for federal housing programs	**(22,372,779)**	(21,963,891)
Payments for other housing programs	**(4,757,849)**	(5,677,313)
Net Cash (Used in) Provided by Operating Activities	**(18,635,406)**	89,119,462
Cash Flows From Noncapital Financing Activities		
Proceeds from sale of bonds	**344,569,813**	532,047,345
Principal paid on bonds	**(445,857,718)**	(495,784,395)
Interest paid on bonds	**(57,493,929)**	(62,293,223)
Bond issuance costs paid	**(1,996,544)**	(2,702,932)
Net Cash Used in Noncapital Financing Activities	**(160,778,378)**	(28,733,205)
Cash Flows From Capital and Related Financing Activities		
Purchase of fixed assets	**(193,475)**	(319,268)
Net Cash Used in Capital and Related Financing Activities	**(193,475)**	(319,268)
Cash Flows From Investing Activities		
Purchase of investment securities	**(302,131,799)**	(364,374,847)
Proceeds from sale and maturities of investment securities	**376,788,238**	245,824,656
Interest received on investments	**18,569,798**	17,227,334
Net Cash Provided by (Used in) Investing Activities	**93,226,237**	(101,322,857)
Change in cash and cash equivalents	**(86,381,022)**	(41,255,868)
Cash and cash equivalents, beginning of year	**214,025,567**	255,281,435
Cash and cash equivalents, end of year	**$ 127,644,545**	$ 214,025,567

Reconciliation of Operating Income to Cash Flows Provided By Operating Activities		
Operating income	**$ 16,018,088**	$ 2,092,730
Adjustments to reconcile operating income to net cash provided by operating activities		
Interest on bonds payable	**58,100,140**	60,352,206
Net increase in fair market value of investments	**(404,410)**	11,138,411
Interest from investments	**(19,769,652)**	(17,502,903)
Amortization of deferred financing costs	**2,336,978**	4,032,200
Changes in assets and liabilities		
Loan interest receivable	**210,681**	290,216
Accounts payable and other liabilities	**(22,645)**	(1,083,388)
Mortgage loans receivable	**(74,835,135)**	29,182,721
Other receivables	**(104,142)**	734,301
Other assets	**(314,540)**	-
Multifamily escrows and reserves	**(439,076)**	(534,247)
Depreciation	**366,282**	417,215
Bad debt expense	**222,025**	-
Net Cash (Used in) Provided by Operating Activities	**$ (18,635,406)**	$ 89,119,462

See 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 $239,180,000 for 2005. 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 No. 14 and includes oversight responsibility, including financial accountability, over agencies by the Authority's board. 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 is comprised entirely of members from the Authority's Board, HERO's financial statements are blended with the Authority's General Operating Account.

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.

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.

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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, or 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.

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 $55,750 and $4,068 at June 30, 2005 and 2004, respectively, for arbitrage rebates which are included in accounts payable and other liabilities.

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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 federal government of the United States of America, debt obligations guaranteed by the federal government, bank instruments collateralized by debt obligations guaranteed by the federal government, and shares of an investment company (mutual funds) whose investments are in debt obligations guaranteed by the federal government. As of the years ended June 30, 2005 and 2004, 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, 2005 and June 30, 2004, of the Authority's deposits of $3,992,472 (carrying value of $3,582,662) and $4,117,154 (carrying value of $3,950,960) 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, 2005 and 2004, 14.1 percent and 5.6 percent, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2005, and 2004, the Authority had investments maturing as follows:

		2005 Investment Maturities (in Years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**Greater than 11**
U.S. Treasuries	**$ 31,730,131**	**$ -**	**$ 20,786,023**	**$ 10,944,108**	**$ -**
U.S. Treasury Inflation Protected Securities	**1,101,029**	**-**	**-**	**1,101,029**	**-**
U.S. Treasury Strips	**848,520**	**-**	**381,834**	**466,686**	**-**
U.S. Government Agencies	**262,658,297**	**42,823,037**	**121,392,120**	**55,414,618**	**43,028,522**
Mutual Funds	**107,491,207**	**107,491,207**	**-**	**-**	**-**
Investment Agreements	**100,783,975**	**95,808,679**	**-**	**-**	**4,975,297**
State Obligations	**12,455,044**	**662,760**	**7,466,521**	**4,325,762**	**-**
Total	**$ 517,068,203**	**$ 246,785,683**	**$ 150,026,498**	**$ 72,252,203**	**$ 48,003,819**

		2004 Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	Greater than 11
U.S. Treasuries	$ 32,336,655	$ 2,160,800	$ 27,540,323	$ 2,635,532	$ -
U.S. Treasury Strips	848,844	-	848,844	-	-
U.S. Government Agencies	230,010,409	36,193,984	115,978,158	38,643,092	39,195,175
Mutual Funds	209,673,645	209,673,645	-	-	-
Investment Agreements	191,113,194	2,623,097	185,222,000	-	3,268,097
State Obligations	12,279,116	2,219,739	4,518,693	5,303,495	237,189
Total	$ 676,261,863	$ 252,871,265	$ 334,108,018	$ 46,582,119	$ 42,700,461

At June 30, 2005 and 2004, certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2005			2004		
	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	**$ 79,689,750**	**$ 4,352,260**	**$ 611,416**	$ 79,287,950	$ 4,503,862	$ 486,950
Mortgage reserve for debt service, Bond redemption premiums and potential loan losses	**36,527,612**	**-**	**-**	36,097,665	-	-
Total	**$ 116,217,362**	**$ 4,352,260**	**$ 611,416**	$ 115,385,615	$ 4,503,862	$ 486,950

Credit Risk: It is the investment policy of the Authority to invest in securities limited to direct general obligations of the U.S. Government, U.S. 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 U.S. Government are not considered to have a credit risk. The investments are grouped as rated by Moody's Investors Service:

Moody's Rating	**2005**	2004
Aaa	**$ 477,513,104**	$ 637,219,979
Aa	**5,530,144**	5,508,702
Unrated	**345,275**	347,683
Total	**$ 483,388,523**	$ 643,076,364

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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, 2005, the Authority held 5 percent or more of their investments with the following issuers: Federal Home Loan Bank (17.64%), Trinity Plus Funding Company Investment Agreement (15.7%), Federal National Mortgage Association (15.58%), and Federal Home Loan Mortgage Corporation (12.77%). At June 30, 2004, the following issuers held 5 percent or more of the Authority's investments: Trinity Plus Funding Company Investment Agreement (27.2%), Federal Home Loan Bank (20.3%), and Federal National Mortgage Association (6.4%).

Note 4. Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	2005	2004
Homeownership Mortgage Program Bonds	**$ 998,719,612**	$ 924,481,990
Multiple Purpose Bonds	**40,482,739**	43,395,670
Other (General Operating Account)	**34,002,384**	30,491,940
Total	**$ 1,073,204,735**	$ 998,369,600

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, 2005 and 2004 is $1,019,223 and $1,467,062, 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):

			2005			2004
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	8.5%	-	5	**5**	5
1994 Series A	-	-	-	-	**-**	11,890
1995 Series C	-	-	-	-	**-**	6,925
1996 Series B	-	-	-	-	**-**	32,550
1997 Series A	-	-	-	-	**-**	1,840
1997 Series B	2006-2017	4.65% to 5.25%	5,405	2,500	**7,905**	8,840
1997 Series C	2006-2027	4.8% to 5.45%	2,410	16,270	**18,680**	19,730
1997 Series D	2018-2024	5.375% to 5.4%	-	9,580	**9,580**	10,115
1997 Series E-1	2006-2030	4.7% to 5.4%	5,315	35,375	**40,690**	41,425
1997 Series E-2	2006-2030	4.5% to 5.3%	4,100	27,310	**31,410**	31,975
1997 Series E-3	2006-2030	4.5% to 5.35%	2,200	14,615	**16,815**	17,120
1997 Series E-4	2006-2018	4.7% to 5.55%	2,900	4,820	**7,720**	15,140
1997 Series F	-	-	-	-	**-**	18,310
1997 Series J	2006-2029	5.1% to 5.65%	10,965	82,920	**93,885**	95,770
1998 Series A	2018-2028	5.3% to 5.4%	-	14,640	**14,640**	15,670
1998 Series D	-	-	-	-	**-**	13,600
1998 Series F	2006-2016	4.4% to 5.15%	2,385	3,755	**6,140**	6,565
1998 Series G	2029	5.35%	-	8,920	**8,920**	10,005
1999 Series A	-	-	-	-	**-**	21,220
1999 Series B	-	-	-	-	**-**	1,735
1999 Series D	2006-2030	4.7% to 5.55%	6,150	15,285	**21,435**	40,250
2000 Series B	-	-	-	-	**-**	3,250
2000 Series H	-	-	-	-	**-**	4,565

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2000 Series I	-	-	-	-	**-**	2,665
2001 Series A	2006-2028	4.1% to 5.3%	14,260	27,445	**41,705**	45,780
2001 Series B	-	-	-	-	**-**	5,560
2001 Series D	2006-2017	4.1% to 5.25%	19,505	12,735	**32,240**	33,850
2001 Series E	2021-2032	4.72% to 5.55%	-	22,335	**22,335**	29,970
2001 Series F	2030	4.85%	-	20,000	**20,000**	20,000
2002 Series A	2006-2022	3.8% to 5.35%	8,645	8,155	**16,800**	20,325
2002 Series B	2025-2032	4.75% to 5.6%	-	11,325	**11,325**	15,295
2002 Series C	2006-2033	3.8% to 5.47%	2,025	12,850	**14,875**	15,120
2002 Series D	2006-2014	3.6% to 4.85%	11,315	-	**11,315**	12,345
2002 Series E	2021-2032	4.65% to 5.55%	-	40,420	**40,420**	44,370
2002 Series F	2006-2014	2.8% to 4.30%	10,950	-	**10,950**	11,985
2002 Series G	2022-2033	3.95% to 5.30%	-	42,665	**42,665**	45,075
2002 Series H	2007-2014	2.85% to 4.35%	14,710	-	**14,710**	14,710
2002 Series I	2006-2033	2.85% to 5.25%	1,695	28,025	**29,720**	32,805
2003 Series A	2006-2023	2.0% to 4.75%	11,700	1,455	**13,155**	14,055
2003 Series B	2023-2034	4.95% to 5.05%	-	33,750	**33,750**	34,760
2003 Series C-1	2032	2.25% (2)	-	26,500	**26,500**	26,500
2003 Series C-2	2032	2.15% (2)	-	26,400	**26,400**	26,400
2003 C DrawDown	2043	3.17% (3)	81,188	-	**81,188**	185,222
2003 Series D	2006-2022	1.75% to 4.8%	11,295	13,265	**24,560**	24,560
2003 Series E	2028	5.0%	-	12,165	**12,165**	14,210
2003 Series F	2034	2.33% (2)	-	20,000	**20,000**	20,000
2003 Series G	2006-2017	1.85% to 4.55%	16,820	5,080	**21,900**	23,400
2003 Series H	2022-2028	4.85% to 5%	-	29,620	**29,620**	30,680
2003 Series I	2034	2.28% (2)	-	28,000	**28,000**	28,000
2004 Series A	2006-2017	2.0% to 4.7%	26,315	-	**26,315**	28,115
2004 Series B	2021-2027	4.95% to 5%	-	37,305	**37,305**	37,885
2004 Series C	2034	2.28% (2)	-	34,000	**34,000**	34,000
2004 Series D	2032	2.19% (2)	-	11,890	**11,890**	11,890
2004 Series E	2006-2017	1.9% to 4.25%	26,690	-	**26,690**	-
2004 Series F	2022-2028	4.6% to 5.25%	-	39,345	**39,345**	-
2004 Series G	2034	2.31% (2)		33,000	**33,000**	-
2005 Series A	2006-2018	2.45% to 4.2%	28,425	-	**28,425**	-
2005 Series B	2023-2027	4.5% to 5.25%	-	30,575	**30,575**	-
2005 Series C	2035	2.28% (2)	-	41,000	**41,000**	-
2005 Series D	2031	2.19% (2)	-	6,925	**6,925**	-
Plus unamortized premium					**6,126**	3,625
Less unamortized loss on refunding					**(1,416)**	(1,338)
Total Homeownership Mortgage Program Bonds					**$ 1,224,323**	$ 1,320,334

(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):

			2005			2004
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term(1)**	**Total Outstanding**	Total Outstanding
2002 Series A	2006-2020	3.1% to 5.15%	$ 11,165	$ 16,280	**$ 27,445**	$ 29,570
2002 Series B	2006-2021	2.4% to 5.1%	10,935	6,040	**16,975**	18,945
Less unamortized loss on refunding					**(1,035)**	(1,101)
Total Multifamily Trust Bonds					**$ 43,385**	$ 47,414

(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):

			2005			2004
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term(1)**	**Total Outstanding**	Total Outstanding
Series 2001	2031	2.33% *(2)*	$ -	$ 6,495	**$ 6,495**	$ 6,495
Series 2001	2034	2.4% *(2)*	-	13,000	**13,000**	13,000
Series 2002 A	2006-2033	2.45% to 5.35%	180	2,340	**2,520**	2,555
Series 2004 A	2033	6.15%	-	1,353	**1,353**	-
Total Multifamily Housing Revenue Bonds					**$ 23,368**	$ 22,050

(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.*

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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	2005 Term	2005 Total Outstanding	2004 Total Outstanding
1995 Series A	2010	7.5% to 8.5%	$ 2,274	**$ 2,274**	$ 3,477
1996 Series A	2011	8.5%	-	**-**	1,102
1996 Series B	2012	3.75%	1,442	**1,442**	1,466
Series 1999-1	2015	4.0%	1,370	**1,370**	1,394
Series 1999-2	2015	6.0%	1,526	**1,526**	1,562
Series 1999-3	2015	6.0%	1,607	**1,607**	1,635
Series 2000-1	2015	7.5%	797	**797**	808
Series 2002-1	2017	7.0%	4,235	**4,235**	4,295
Total Multifamily Mortgage Pass-Through Bonds				**$ 13,251**	$ 15,739

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	2005 Serial	2005 Term (1)	2005 Total Outstanding	2004 Total Outstanding
Series 1999	2009-2040	5.4% to 5.8%	$ -	$ 3,135	**$ 3,135**	$ 3,160
Series 2000	2032	5.85%	-	3,595	**3,595**	3,690
Series 2001	2006-2043	3.45 to 5.35%	380	7,300	**7,680**	7,735
Total Multifamily Risk Sharing Bonds					**$ 14,410**	$ 14,585

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

TOTAL BONDS OUTSTANDING	**$ 1,318,737**	$ 1,420,122

Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2005 and 2004:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due Within One Year
Homeownership Mortgage Program Bonds	$ 1,320,333,822	$ 343,852,224	$ 439,863,363	$ 1,224,322,683	$ 24,530,000
Multiple Purpose Bonds	47,414,016	-	4,028,529	43,385,487	2,215,000
Multifamily Housing Revenue Bonds	22,050,000	1,353,192	35,000	23,368,192	35,000
Multifamily Mortgage Pass-Through Bonds	15,739,486	-	2,488,714	13,250,772	288,053
Multifamily Risk Sharing Bonds	14,585,000	-	175,000	14,410,000	185,000
	$ 1,420,122,324	$ 345,670,440	$ 446,590,606	$ 1,318,737,134	$ 27,253,053

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004	Amounts Due Within One Year
Homeownership Mortgage Program Bonds	$ 1,277,821,030	$ 532,037,634	$ 489,524,842	$ 1,320,333,822	$ 24,315,000
Multiple Purpose Bonds	49,524,432	-	2,110,416	47,414,016	2,300,000
Multifamily Housing Revenue Bonds	22,050,000	-	-	22,050,000	35,000
Multifamily Mortgage Pass-Through Bonds	19,708,912	9,711	3,979,137	15,739,486	340,433
Multifamily Risk Sharing Bonds	14,755,000	-	170,000	14,585,000	175,000
	$ 1,383,859,374	$ 532,047,345	$ 495,784,395	$ 1,420,122,324	$ 27,165,433

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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
2006	$ 24,530,000	$ 53,427,582	$ 2,215,000	$ 1,957,633	$ 35,000	$ 615,885
2007	25,290,000	52,247,285	2,265,000	1,891,457	60,318	672,627
2008	26,165,000	51,350,277	2,345,000	1,815,565	60,318	670,791
2009	27,135,000	50,330,229	2,425,000	1,729,684	67,350	666,624
2010	28,255,000	49,238,413	2,520,000	1,634,887	67,350	664,324
2011-2015	159,510,000	226,241,243	15,315,000	6,394,859	408,164	3,267,776
2016-2020	183,295,000	183,984,760	14,665,000	2,801,439	539,896	3,142,442
2021-2025	205,945,000	135,127,324	2,670,000	106,760	721,945	2,968,519
2026-2030	204,320,000	79,327,869	-	-	942,282	2,739,124
2031-2035	253,980,000	37,732,210	-	-	20,465,569	1,552,656
2036-2040	-	17,931,588	-	-	-	-
2041-2045	81,188,000	10,355,646	-	-	-	-
Total	$ 1,219,613,000	$ 947,294,426	$ 44,420,000	$ 18,332,284	$ 23,368,192	$ 16,960,768

Year End	Multifamily Mortgage Pass-Through Bonds		Multifamily Risk Sharing Bonds	
June 30	Principal	Interest	Principal	Interest
2006	$ 288,053	$ 781,883	$ 185,000	$ 795,550
2007	306,833	763,909	195,000	786,182
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
2011-2015	6,548,470	2,413,828	1,005,000	3,597,099
2016-2020	3,337,978	397,145	1,295,000	3,288,054
2021-2025	-	-	1,750,000	2,873,620
2026-2030	-	-	2,370,000	2,312,684
2031-2035	-	-	2,535,000	1,576,317
2036-2040	-	-	2,620,000	908,550
2041-2045	-	-	1,795,000	192,637
Total	$ 13,250,772	$ 6,419,898	$ 14,410,000	$ 18,626,106

Note 6. Refunding of Debt:

In June 2004, the Authority issued $11,890,000 of variable rate Homeownership Mortgage Bonds, 2004 Series D to refund $11,890,000 of Homeownership Mortgage Bonds, 1994 Series A. The refunding was structured so that the average life of the bonds was extended by approximately 22 years. As a result, over the next 28 years, if the variable rate over the life of the refunding bonds averages the same level as the average rate since 1989, the cash flow required for debt service of the Homeownership Mortgage Bonds 2004 Series D will be $6,796,783 more than the cash flow required for debt service of the Homeownership Mortgage Bonds 1994 Series A. The difference in present value of the old and new debt service payments after paying the costs of issuing the refunding bonds will result in the economic gain of approximately $1,412,977.

In April 2005, the Authority issued $6,925,000 of variable rate Homeownership Mortgage Bonds, 2005 Series D to refund $6,925,000 of Homeownership Mortgage Bonds, 1995 Series C. The refunding was structured so that the average life of the bonds was extended by approximately 24 years. The purpose of the refunding was to restructure the debt to allow the recycling of mortgage prepayments. At the time of issuance, the Authority entered into an interest rate swap for 10 years. As a result, over the next twenty-seven years, if the combined rate on the bond and swap payments over the life of the refunding bonds is the same level as the swap rate, the cash flow required for debt service of the Homeownership Mortgage Bonds, 2005 Series D will be $5,117,835 more than the cash flow required for debt service of the Homeownership Mortgage Bonds, 1995 Series C. The difference in present value of the old and new debt service payments after paying the costs of issuing the refunding bonds will result in the economic gain of approximately $352,843.

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Note 7. Interest Rate Swaps:

Swap Objectives:

The Authority has entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were 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, 2005, 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	$ (976,164)
2004 G	33,000,000	10/20/04	3.897%	63.4% of LIBOR plus 0.29%	5/01/2034	Aaa	(1,284,655)
2005 C	41,000,000	4/13/05	3.930%	63.3% of LIBOR plus 0.30%	5/01/2035	Aaa	(1,809,622)
2005 D	6,925,000	4/13/05	3.290%	57.3% of LIBOR plus 0.40%	5/01/2015	Aa3	(229,797)
2003 F	13,000,000	6/21/05	3.763%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	(268,812)
2003 I	28,000,000	6/21/05	3.763%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	(574,340)
2004 C	34,000,000	6/21/05	3.745%	63.8% of LIBOR plus 0.29%	5/01/2034	Aa2	(722,072)

* 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, 2005. 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, 2005, the Authority has a net credit risk exposure to its counterparty because the combined swap position had a negative 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. As of June 30, 2005, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 2.28% per annum while the weighted average interest rate on the swaps was 2.26% 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, 2005:

Year End	**Variable-Rate Bond**		**Interest Rate**	
June 30	**Principal**	**Interest**	**Swap, Net**	**Total**
2006	$ -	$ 4,161,508	$ 2,182,760	$ 6,344,268
2007	-	4,161,508	2,466,218	6,627,726
2008	-	4,161,508	2,466,218	6,627,726
2009	-	4,161,508	2,466,218	6,627,726
2010	-	4,161,508	2,466,218	6,627,726
2011-2015	-	20,807,538	11,760,706	32,568,244
2016-2020	-	20,807,538	10,905,127	31,712,665
2021-2025	-	20,807,538	10,905,127	31,712,665
2026-2030	13,755,000	20,415,948	10,644,792	44,815,740
2031-2035	168,670,000	13,029,094	7,211,970	188,911,063
	$ 182,425,000	$ 116,675,191	$ 63,475,357	$ 362,575,548

Note 8. Net Assets:

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

(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:

	2005	2004
Bond and note reserve	**$ 2,857,837**	$ 2,837,780
Program operations reserve	**5,600,362**	5,987,973
Total	**$ 8,458,199**	$ 8,825,753

Note 9. Commitments:

As of June 30, 2005, the Authority had the following Homeownership Mortgage Program Bond commitments: Commitments to purchase Homeownership mortgage loans aggregating $42,123,869.

Note 10. Segment Information:

The Authority issues bonds to finance the purchase of single family homes and multifamily developments. The bond programs are accounted for in a single enterprise fund, but investors in those bonds rely on the revenue generated by the activities within the individual bond indentures. Summary financial information as of and for the year ended June 30, 2005 and 2004, for the Homeownership Mortgage Program Bonds and the Multiple Purpose Bonds follows:

	2005		2004	
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)	$ 3,437,775	$ 6,716	$ 1,861,302	$ (47,561)
Other current assets	264,860,363	9,055,340	269,328,687	8,988,684
Noncurrent assets	1,202,366,734	75,635,967	1,282,347,395	77,162,326
Total Assets	$ 1,470,664,872	$ 84,698,023	$ 1,553,537,384	$ 86,103,449
Liabilities and Net Assets				
Current liabilities	$ 34,128,044	$ 2,546,425	$ 33,223,377	$ 2,652,643
Noncurrent liabilities	1,199,792,683	41,170,487	1,295,983,822	45,114,016
Total Liabilities	1,233,920,727	43,716,912	1,329,207,199	47,766,659
Net assets:				
Restricted by bond indentures	236,744,145	40,981,111	224,330,185	38,336,790
Total liabilities and net assets	$ 1,470,664,872	$ 84,698,023	$ 1,553,537,384	$ 86,103,449
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	$ 72,418,926	$ 5,173,137	$ 62,040,194	$ 4,260,960
Operating Expenses	60,004,966	2,528,816	62,256,569	2,700,214
Operating Income	12,413,960	2,644,321	(216,375)	1,560,746
Transfers In	-	-	35,819	-
Change in net assets	12,413,960	2,644,321	(180,556)	1,560,746
Beginning net assets	224,330,185	38,336,790	224,510,741	36,776,044
Ending net assets	$ 236,744,145	$ 40,981,111	$ 224,330,185	$ 38,336,790
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ (22,760,990)	$ 6,070,157	$ 85,279,026	$ 5,784,210
Noncapital financing activities	(151,001,482)	(6,145,262)	(18,078,438)	(4,387,838)
Investing actitvities	85,250,929	2,360,738	(106,453,509)	(1,683,036)
Net change	(88,511,543)	2,285,633	(39,252,921)	(286,664)
Beginning cash and cash equivalents	205,238,311	3,911,364	244,491,232	4,198,028
Ending cash and cash equivalents	$ 116,726,768	$ 6,196,997	$ 205,238,311	$ 3,911,364

(continued on next page)

Note 11. Pension Plan:

Plan Description:

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

Plan Administration:

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

Funding Policy:

Plan members are required to contribute 6 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 $141,086, $132,788 and $121,671 for the years ended June 30, 2005, 2004 and 2003, respectively.

Note 12. Subsequent Events:

In August of 2005, the Authority issued $75,000,000 of Homeownership Mortgage Bonds Series 2005 E and F. The Bonds will mature on May 1, 2006, through November 1, 2030, with interest rates from 2.6% to 5.0%. In August of 2005, the Authority issued $25,000,000 of Homeownership Mortgage Bonds Series 2005 G. The Bonds will mature on May 1, 2035, with a variable rate of interest that is set weekly.

Note 13. 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 14. 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, 2005, 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.

South Dakota Housing Development Authority

Supplementary Information

June 30, 2005

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	$ 4,037,958	$ 116,726,768	$ 6,196,997	$ 230,124	$ 455	$ 452,243	**$ 127,644,545**
Investment in securities	3,034,845	119,383,427	305,528	-	-	-	**122,723,800**
Mortgage loans receivable	1,005,799	21,662,228	1,980,844	-	-	-	**24,648,871**
Guaranteed mortgage securities	-	-	-	175,880	288,053	177,449	**641,382**
Interest receivable	331,379	7,087,940	571,971	4,672	10	230,472	**8,226,444**
Other receivables	392,164	-	-	-	-	-	**392,164**
Other assets	2,582,881	-	-	-	-	-	**2,582,881**
Due from (to) other funds	(3,437,491)	3,437,775	6,716	(2,000)	-	(5,000)	**-**
Total Current Assets	7,947,535	268,298,138	9,062,056	408,676	288,518	855,164	**286,860,087**
Noncurrent Assets							
Investment in securities	22,594,555	210,320,378	36,596,719	185,500	-	585,368	**270,282,520**
Mortgage loans receivable	32,996,585	977,057,384	38,501,895	-	-	-	**1,048,555,864**
Guaranteed mortgage securities	-	-	-	22,900,557	12,962,719	13,676,215	**49,539,491**
Other receivables	-	4,390,918	-	-	-	-	**4,390,918**
Furniture and equipment, at cost, less accumulated depreciation	1,103,104	-	-	-	-	-	**1,103,104**
Deferred financing costs, net	-	10,598,054	537,353	198,014	-	-	**11,333,421**
Total Noncurrent Assets	56,694,244	1,202,366,734	75,635,967	23,284,071	12,962,719	14,261,583	**1,385,205,318**
Total Assets	64,641,779	1,470,664,872	84,698,023	23,692,747	13,251,237	15,116,747	**1,672,065,405**
Liabilities							
Current Liabilities							
Bonds payable	-	24,530,000	2,215,000	35,000	288,053	185,000	**27,253,053**
Accrued interest payable	-	8,824,797	331,425	74,827	-	245,481	**9,476,530**
Accounts payable and other liabilities	2,629,563	773,247	-	-	-	98,796	**3,501,606**
Multifamily escrows and reserves	21,439,626	-	-	-	-	132,680	**21,572,306**
Total Current Liabilities	24,069,189	34,128,044	2,546,425	109,827	288,053	661,957	**61,803,495**
Noncurrent Liabilities							
Bonds payable	-	1,199,792,683	41,170,487	23,333,192	12,962,719	14,225,000	**1,291,484,081**
Accounts payable and other liabilities	877,000	-	-	-	-	-	**877,000**
Total Noncurrent Liabilities	877,000	1,199,792,683	41,170,487	23,333,192	12,962,719	14,225,000	**1,292,361,081**
Total Liabilities	24,946,189	1,233,920,727	43,716,912	23,443,019	13,250,772	14,886,957	**1,354,164,576**
Net Assets							
Invested in Capital Assets	1,103,104	-	-	-	-	-	**1,103,104**
Restricted by Bond Indentures	7,355,095	236,744,145	40,981,111	249,728	465	229,790	**285,560,334**
Restricted by HOME Program	31,237,391	-	-	-	-	-	**31,237,391**
Total Net Assets	$ 39,695,590	$ 236,744,145	$ 40,981,111	$ 249,728	$ 465	$ 229,790	**$ 317,900,829**

Supplemental Schedule of Operations and Changes in Net Assets

For the Year Ended June 30, 2005

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	$ 19,669	$ 54,606,153	$ 3,507,032	$ -	$ -	$ -	**$ 58,132,854**
Interest on guaranteed mortgage securities	-	-	-	590,936	896,161	886,332	**2,373,429**
Interest on investments	365,283	15,457,730	1,512,668	21,530	244	38,768	**17,396,223**
Net decrease in fair value of investments	122,206	180,139	102,065	-	-	-	**404,410**
HUD contributions	25,755,906	-	-	-	-	-	**25,755,906**
Fee, grant and other income	6,426,447	2,174,904	51,372	163,437	-	-	**8,816,160**
Total Operating Revenues	32,689,511	72,418,926	5,173,137	775,903	896,405	925,100	**112,878,982**
Operating Expenses							
Interest	-	53,777,066	2,029,044	596,968	895,993	801,069	**58,100,140**
Housing assistance payments	22,372,779	-	-	-	-	-	**22,372,779**
Servicer and other fees	-	3,394,822	-	-	-	-	**3,394,822**
General and administrative	4,182,296	567,878	367,744	2,000	-	116,809	**5,236,727**
Amortization of deferred financing costs	-	2,204,950	132,028	-	-	-	**2,336,978**
Other housing programs	5,359,198	60,250	-	-	-	-	**5,419,448**
Total Operating Expenses	31,914,273	60,004,966	2,528,816	598,968	895,993	917,878	**96,860,894**
Net Income Before Interfund Transfers	775,238	12,413,960	2,644,321	176,935	412	7,222	**16,018,088**
Interfund Transfers	-	-	-	-	-	-	**-**
Changes in net assets	775,238	12,413,960	2,644,321	176,935	412	7,222	**16,018,088**
Net Assets, beginning of year	38,920,352	224,330,185	38,336,790	72,793	53	222,568	**301,882,741**
Net Assets, end of year	$ 39,695,590	$ 236,744,145	$ 40,981,111	$ 249,728	$ 465	$ 229,790	**$ 317,900,829**