EideBailly LLP

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INDEPENDENT AUDITOR'S REPORT

To 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, 2004 and 2003, 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, 2004 and 2003, and the results of its operations 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 to 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements for the years ended June 30, 2004 and 2003, 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
October 1, 2004

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Management's Discussion and Analysis
June 30, 2004

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, 2004 (FY 2004). 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 $34.8 million (or 2.0%) as of June 30, 2004
- Total liabilities of the Authority increased $32.7 million (or 2.3%) as of June 30, 2004
- Net assets of the Authority increased $2.1 million (or 0.7%) as of June 30, 2004
- Cash and cash equivalents of the Authority decreased $41.3 million (or 16.2%) as of June 30, 2004

Management's Discussion and Analysis
June 30, 2004
(continued)

- Investments in securities increased $105.3 million (or 29.2%) as of June 30, 2004
- Mortgage loans receivable decreased $29.2 million (or 2.8%) as of June 30, 2004
- Debt outstanding of the Authority increased $36.3 million (or 2.6%) as of June 30, 2004

Net Income
(in millions of dollars)

	FY 2004	FY 2003	% Change
Revenues:			
Interest on mortgages	$ 59.1	$ 68.0	(13.1%)
Investment income	17.5	20.9	(16.3%)
Increase (decrease) in fair market value of investments	(11.1)	2.2	(604.5%)
Other income	35.5	33.0	7.6%
Total Revenues	101.0	124.1	(18.6%)
Expenses:			
Interest	60.3	73.6	(18.1%)
Servicer Fees	1.7	3.6	(52.8%)
General & Administrative	4.9	5.0	(2.0%)
Other	32.0	33.2	(3.6%)
Total Expenses	98.9	115.4	(14.3%)
Net Income	$ 2.1	$ 8.6	(75.6%)

Analysis:

Homeownership mortgage loan purchases for FY 2004 were $221.5 million, a $47.5 million increase over the previous period. Loan prepayments for the year were in excess of $216 million. Short-term reinvestment rates continued to be at extremely low levels, the interest earned on investments was lower in FY 2004 compared to FY 2003 earnings. 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 substantially less than interest paid on the respective bonds outstanding.

During FY 2004, 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 short term 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.

At June 30, 2003, interest rates on U.S. Treasuries were at an approximate 40 year low. As a result, unrealized gains on the market value of investments were recognized in previous periods. Because of the point in time decrease in interest rates at June 30, 2003, and the then increase in rates to normal levels, the Authority had an unrealized loss on the market value of investments in the amount of $11.1 million for FY 2004.

Financial Statement Elements

Changes in Assets and Liabilities
(in millions of dollars)

	FY 2004	FY 2003	% Change
Assets:			
Cash and equivalents	$ 214.0	$ 255.3	(16.2%)
Investments	466.2	360.9	29.2%
Mortgages & Securities	1,053.2	1,081.0	(2.6%)
Interest Receivable	8.3	8.4	(1.2%)
Deferred Costs	11.7	13.0	(10.0%)
Capital Assets	1.3	1.5	(13.3%)
Other	2.6	2.4	8.3%
Total Assets	1,757.3	1,722.5	2.0%
Liabilities:			
Current bonds payable	27.2	27.7	(1.8%)
Interest payable	8.9	10.8	(17.6%)
Other	26.4	28.1	3.3%
Noncurrent bonds payable	1,392.9	1,356.1	2.7%
Total Liabilities	1,455.4	1,422.7	2.3%
Net Assets:			
Unrestricted	0.0	0.1	-
Invested in Capital Assets	1.3	1.5	(13.3%)
Restricted by Bond Indentures	271.8	272.9	0.0%
Restricted by HOME Program	28.8	25.3	13.8%
Total Net Assets	$ 301.9	$ 299.8	0.7%

Management's Discussion and Analysis
June 30, 2004
(continued)

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, 2004, the Authority had $1,420.1 million in bonds outstanding, a 2.6% increase over the previous year.

The Authority issued a total of $532.0 million in bonds in fiscal year 2004. Of that total, $277.2 million was issued as long term debt for the origination of single family loans and $254.8 million was issued as short term debt for the refunding of bonds from prepayments and excess reserves.

The Authority retired or paid at maturity a total of $495.8 million in bonds in fiscal year 2004. $473.0 million was redeemed from prepayments and excess reserves and $22.8 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

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 historically low levels and if they continue at such levels, the Authority would expect those revenues to be stable or decrease slightly. If short term interest rates increase the Authority would anticipate interest from mortgage loan payments and interest payments on investments to increase as more 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		**2004**		2003
Current Assets				
Cash and cash equivalents (Note 3)	**$**	**214,025,567**	$	255,281,435
Investment in securities (Note 3)		**40,303,328**		64,081,589
Mortgage loans receivable (Note 4)		**24,754,764**		30,341,470
Guaranteed mortgage securities (Note 3)		**541,954**		586,751
Interest receivable		**8,342,434**		8,357,081
Other receivables		**288,022**		454,928
Other assets		**2,268,341**		1,974,298
Total Current Assets		**290,524,410**		361,077,552
Noncurrent Assets				
Investment in securities (Note 3)		**425,883,928**		296,812,737
Mortgage loans receivable (Note 4)		**973,614,836**		997,210,851
Guaranteed mortgage securities (Note 3)		**49,874,893**		47,892,811
Other receivables		**4,390,918**		4,958,313
Furniture and equipment, at cost, less accumulated depreciation		**1,308,060**		1,526,228
Deferred financing costs, net		**11,690,972**		13,012,497
Total Noncurrent Assets		**1,466,763,607**		1,361,413,437
Total Assets		**1,757,288,017**		1,722,490,989
Liabilities				
Current Liabilities				
Bonds payable (Notes 5 and 6)		**27,165,433**		27,741,292
Accrued interest payable		**8,870,319**		10,811,336
Accounts payable and other liabilities		**3,701,251**		4,079,671
Multifamily escrows and reserves		**22,011,382**		22,545,629
Total Current Liabilities		**61,748,385**		65,177,928
Noncurrent Liabilities				
Bonds payable (Notes 5 and 6)		**1,392,956,891**		1,356,118,082
Accounts payable and other liabilities		**700,000**		1,404,968
Total Noncurrent Liabilities		**1,393,656,891**		1,357,523,050
Total Liabilities		**1,455,405,276**		1,422,700,978
Net Assets				
Unrestricted		**-**		137,819
Invested in Capital Assets		**1,308,060**		1,526,228
Restricted by Bond Indentures		**271,788,142**		272,829,475
Restricted by HOME Program		**28,786,539**		25,296,489
Total Net Assets	**$**	**301,882,741**	$	299,790,011

See Notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30

Operating Revenues	**2004**	2003
Interest income on mortgage loans	**$ 59,116,301**	$ 68,021,527
Interest on guaranteed mortgage securities	**2,503,823**	2,352,004
Interest on investments	**14,999,080**	18,523,435
Net increase (decrease) in the fair market value of investments	**(11,138,411)**	2,162,646
HUD contributions	**26,885,239**	24,419,701
Other income	**8,585,400**	8,598,590
Total Operating Revenues	**100,951,432**	124,077,903
Operating Expenses		
Interest	**60,352,206**	73,642,876
Housing assistance payments	**21,963,891**	21,247,523
Servicer and other fees	**1,736,993**	3,561,009
General and administrative	**4,915,462**	5,024,396
Amortization of deferred financing costs	**4,032,200**	3,579,460
Other housing programs	**5,857,950**	8,422,835
Total Operating Expenses	**98,858,702**	115,478,099
Net Income	**2,092,730**	8,599,804
Net Assets, beginning of year	**299,790,011**	291,190,207
Net Assets, end of year	**$ 301,882,741**	$ 299,790,011

See Notes to Financial Statements.

Statements of Cash Flows — *For the Years Ended June 30*

		2004		2003
Cash Flows From Operating Activities				
Receipts from loan payments	$	317,465,429	$	343,020,319
Receipts for program fees		8,768,709		8,586,694
Receipts from federal housing programs		26,885,239		24,419,701
Payments for loan programs		(228,772,185)		(181,565,401)
Payments for operating expenses		(5,364,435)		(4,797,305)
Payments to employees		(2,222,091)		(2,399,201)
Payments for federal housing programs		(21,963,891)		(21,247,523)
Payments for other housing programs		(5,677,313)		(7,472,470)
Net Cash Provided by Operating Activities		89,119,462		158,544,814
Cash Flows From Noncapital Financing Activities				
Proceeds from sale of bonds		532,047,345		432,058,127
Principal paid on bonds		(495,784,395)		(529,527,847)
Interest paid on bonds		(62,293,223)		(75,805,488)
Bond issuance costs paid		(2,702,932)		(1,770,181)
Net Cash Used in Noncapital Financing Activities		(28,733,205)		(175,045,389)
Cash Flows From Capital and Related Financing Activities				
Purchase of fixed assets		(319,268)		(447,087)
Net Cash Used in Capital and Related Financing Activities		(319,268)		(447,087)
Cash Flows From Investing Activities				
Purchase of investment securities		(364,374,847)		(349,252,868)
Proceeds from sale and maturities of investment securities		245,824,656		360,228,021
Interest received on investments		17,227,334		21,201,244
Net Cash (Used in) Provided by Investing Activities		(101,322,857)		32,176,397
Change in cash and cash equivalents		(41,255,868)		15,228,735
Cash and cash equivalents, beginning of year		255,281,435		240,052,700
Cash and cash equivalents, end of year	$	214,025,567	$	255,281,435

Reconciliation of Operating Income to Cash Flows Provided By Operating Activities				
Operating income	$	2,092,730	$	8,599,804
Adjustments to reconcile operating income to net cash provided by operating activities				
Interest on bonds payable		60,352,206		73,642,876
Net (increase) decrease in fair market value of investments		11,138,411		(2,162,646)
Interest from investments		(17,502,903)		(20,800,240)
Amortization of deferred financing costs		4,032,200		3,579,460
Changes in assets and liabilities				
Interest receivable		290,216		924,435
Accounts payable and other liabilities		(1,083,388)		1,388,899
Mortgage loans receivable		29,182,721		92,656,276
Other receivables		734,301		967,490
Other assets		-		(17,369)
Multifamily escrows and reserves		(534,247)		(582,603)
Depreciation		417,215		348,432
Net Cash Provided by Operating Activities	$	89,119,462	$	158,544,814

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 $233,795,000 for 2004. 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.

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.

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 $4,068 and $1,541,027 at June 30, 2004, and 2003, 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 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, 2004, and 2003, 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 does not have a deposit policy for custodial credit risk. As of June 30, 2004, and 2003, \$3,699,282 and \$2,016,459, respectively, of the Authority's bank balance of \$4,117,154 (carrying value of \$3,950,960) and \$2,434,208 (carrying value of \$2,225,317), respectively, was exposed to custodial credit risk as follows:

	2004	2003
Uninsured and uncollateralized	**$ 2,870,584**	$ 1,234,023
Uninsured and collateral held by pledging bank's trust department	**828,698**	782,436
Total	**$ 3,699,282**	$ 2,016,459

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 credit risk. All investments are held in the Authority's name.

Interest Rate Risk: The Authority limits the maturities of investments for its restricted accounts. Investments of the Capital Reserve accounts must 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, 2004 and 2003, 5.6 percent and 6 percent respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2004, and 2003, the Authority had investments maturing as follows:

		2004 Investment Maturities (in Years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**Greater than 10**
U.S. Treasury Notes	**$ 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**

		2003 Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	Greater than 10
U.S. Treasury Notes	$ 51,923,069	$ 20,470,359	$ 29,273,881	$ 415,836	$ 1,762,993
U.S. Treasury Strips	817,880	-	817,880	-	-
U.S. Government Agencies	191,908,123	11,036,579	126,958,996	17,504,787	36,407,761
Mutual Funds	246,134,523	246,134,523	-	-	-
Investment Agreements	110,335,800	38,726,059	66,530,000	-	5,079,741
State Obligations	12,831,049	770,187	7,726,722	4,090,674	243,466
Total	$ 613,950,444	$ 317,137,707	$ 231,307,479	$ 22,011,297	$ 43,493,961

At June 30, 2004, and 2003, certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2004			2003		
	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	**$ 79,287,950**	**$ 4,503,862**	**$ 486,950**	$ 89,497,450	$ 4,503,862	$ 486,950
Mortgage reserve for debt service, bond redemption premiums and potential loan losses	**36,097,665**	**-**	**-**	33,012,943	-	-
Total	**$ 115,385,615**	**$ 4,503,862**	**$ 486,950**	$ 122,510,393	$ 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. The state obligations were rated Aa and Aaa by Moody's Investors Service and, AA and AAA by Standard and Poor's Corporation. U.S. Government Agencies are rated Aaa by Moody's Investors Service and AAA by Standard and Poor's Corporation. Investment Agreements are unrated, however, the underlying collateral pledged against them are invested in direct general obligations of the U.S. Government and U.S. Government Agencies. Mutual fund investments are rated AAAm by Standard and Poor's Corporation and Aaa by Moody's Investors Service. Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have a credit risk.

Concentration of Credit Risk: The Authority places no limit on the amount that the Authority may invest in any one issuer. 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%). At June 30, 2003, the following issuers held 5 percent or more of the Authority's investments: Trinity Plus Funding Company Investment Agreement (10.8%), Federal Home Loan Bank (13.1%), Federal National Mortgage Association (7.3%), and Federal Home Loan Mortgage Corporation (6.2%).

Note 4. Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	2004	2003
Homeownership Mortgage Program Bonds	**$ 924,481,990**	$ 955,845,278
Multiple Purpose Bonds	**43,395,670**	45,692,590
Other (General Operating Account)	**30,491,940**	26,014,453
Total	**$ 998,369,600**	$ 1,027,552,321

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, 2004, and 2003, is $1,467,062 and $597,785 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):

			2004			2003
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
1993 Series C	-	-	-	-	**-**	12,140
1994 Series A	2005-2014	5.25% to 5.8%	1,895	9,995	**11,890**	12,765
1995 Series C	2005-2015	5.4% to 6.25%	5,325	1,600	**6,925**	8,890
1995 Series F	-	-	-	-	**-**	18,810

Bond Issue	Maturity Date	Interest Rate	2004 Serial	2004 Term (1)	2004 Total Outstanding	2003 Total Outstanding
1995 Series G	-	-	-	-	**-**	12,620
1996 Series A	-	-	-	-	**-**	13,225
1996 Series B	2005-2027	5.75% to 6.35%	665	31,885	**32,550**	32,810
1996 Series C	-	-	-	-	**-**	5,575
1997 Series A	2005-2027	6.13%	-	1,840	**1,840**	17,350
1997 Series B	2005-2017	4.55% to 5.25%	6,340	2,500	**8,840**	9,735
1997 Series C	2005-2027	4.7% to 5.45%	2,660	17,070	**19,730**	23,375
1997 Series D	2018-2024	5.375% to 5.4%	-	10,115	**10,115**	12,700
1997 Series E-1	2005-2030	4.6% to 5.4%	6,050	35,375	**41,425**	42,130
1997 Series E-2	2005-2030	4.4% to 5.3%	4,665	27,310	**31,975**	32,520
1997 Series E-3	2005-2030	4.4% to 5.35%	2,505	14,615	**17,120**	17,410
1997 Series E-4	2005-2030	4.6% to 5.55%	3,300	11,840	**15,140**	22,960
1997 Series F	2005-2028	5.0% to 5.8%	3,375	14,935	**18,310**	58,950
1997 Series J	2005-2029	5.0% to 5.65%	12,850	82,920	**95,770**	97,565
1998 Series A	2007-2028	4.55% to 5.4%	-	15,670	**15,670**	17,805
1998 Series D	2005-2028	4.25% to 5.25%	3,160	10,440	**13,600**	14,685
1999 Series A	2007-2027	4.25% to 5.125%	4,415	16,805	**21,220**	21,220
1999 Series B	2005-2030	4.2% to 5.25%	425	1,310	**1,735**	7,825
1999 Series D	2005-2030	4.6% to 5.55%	7,825	32,425	**40,250**	49,005
1999 Series G	-	-	-	-	**-**	47,905
2000 Series A	-	-	-	-	**-**	3,705
2000 Series B	2023-2028	5.8% to 6.425%	-	3,250	**3,250**	9,310
2000 Series E	-	-	-	-	**-**	23,635
2000 Series H	2005-2017	4.8% to 5.7%	2,460	2,105	**4,565**	32,750
2000 Series I	2021	5.9%	-	2,665	**2,665**	27,540
2001 Series A	2004-2028	4.0% to 5.3%	16,075	29,705	**45,780**	49,685
2001 Series B	2032	5.45%	-	5,560	**5,560**	10,695
2001 Series D	2005-2017	3.95% to 5.45%	21,115	12,735	**33,850**	35,400
2001 Series E	2021-2032	4.72% to 5.55%	-	29,970	**29,970**	36,025
2001 Series F	2030	4.85%	-	20,000	**20,000**	20,000
2002 Series A	2005-2022	3.45% to 5.35%	9,540	10,785	**20,325**	21,200
2002 Series B	2025-2032	4.75% to 5.6%	-	15,295	**15,295**	22,735
2002 Series C	2005-2033	3.45% to 5.47%	2,270	12,850	**15,120**	15,355
2002 Series D	2005-2014	3.35% to 4.85%	12,345	-	**12,345**	13,345
2002 Series E	2021-2032	4.65% to 5.55%	-	44,370	**44,370**	46,415
2002 Series F	2005-2014	2.45% to 4.30%	11,985	-	**11,985**	13,000
2002 Series G	2022-2033	3.95% to 5.30%	-	45,075	**45,075**	46,865
2002 Series H	2007-2014	2.85% to 4.35%	14,710	-	**14,710**	14,710
2002 Series I	2005-2033	2.45% to 5.25%	3,345	29,460	**32,805**	35,280
2003 Series A	2005-2023	1.6% to 4.75%	12,600	1,455	**14,055**	14,940
2003 Series B	2023-2034	4.95% to 5.05%	-	34,760	**34,760**	35,060
2003 Series C-1	2032	0.95% (2)	-	26,500	**26,500**	26,500
2003 Series C-2	2032	1.1% (2)	-	26,400	**26,400**	26,400
2003 C DrawDown	2043	1.42% (3)	185,222	-	**185,222**	66,530
2003 Series D	2006-2002	1.75% to 4.8%	11,295	13,265	**24,560**	-
2003 Series E	2005-2028	1.75%-5%	1,080	13,130	**14,210**	-
2003 Series F	2034	1.07% (2)	-	20,000	**20,000**	-
2003 Series G	2005-2017	1.5%-4.55%	18,320	5,080	**23,400**	-
2003 Series H	2017-2028	4.85%-5%	-	30,680	**30,680**	-
2003 Series I	2034 (2)	-	-	28,000	**28,000**	-
2004 Series A	2005-2017	1.4%-4.7%	28,115	-	**28,115**	-
2004 Series B	2017-2027	4.95%-5%	-	37,885	**37,885**	-
2004 Series C	2034 (2)	1.06%	-	34,000	**34,000**	-
2004 Series D	2032 (2)	1.01%	-	11,890	**11,890**	-
Plus unamortized premium					**3,625**	817
Less unamortized loss on refunding					**(1,338)**	(1,471)
Total Homeownership Mortgage Program Bonds					**$ 1,320,334**	$ 1,277,821

(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):

Bond Issue	Maturity Date	Interest Rate	2004 Serial	2004 Term(1)	2004 Total Outstanding	2003 Total Outstanding
2002 Series A	2005-2020	3.1% to 5.15%	$ 12,780	$ 16,790	**$ 29,570**	$ 30,785
2002 Series B	2005-2021	2.4% to 5.1%	12,905	6,040	**18,945**	19,980
Less unamortized loss on refunding					**(1,101)**	(1,241)
Total Multifamily Trust Bonds					**$ 47,414**	$ 49,524

(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):

			2004			2003
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term(1)**	**Total Outstanding**	Total Outstanding
Series 2001	2031	1.4% *(2)*	$ -	$ 6,495	**$ 6,495**	$ 6,495
Series 2001	2034	1.4% *(2)*	-	13,000	**13,000**	13,000
Series 2002 A	2005-2033	2.45% to 5.35%	215	2,340	**2,555**	2,555
Total Multifamily Housing Revenue Bonds					**$ 22,050**	$ 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.*

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

			2004		2003
Bond Issue	**Maturity Date**	**Interest Rate**	**Term**	**Total Outstanding**	Total Outstanding
1995 Series A	2010	7.5% to 8.5%	$ 3,477	**$ 3,477**	$ 6,678
1995 Series B	2010	9.0%	-	**-**	568
1996 Series A	2011	8.5%	1,102	**1,102**	1,130
1996 Series B	2012	3.75%	1,466	**1,466**	1,489
Series 1999-1	2015	4.0%	1,394	**1,394**	1,417
Series 1999-2	2015	6.0%	1,562	**1,562**	1,597
Series 1999-3	2015	6.0%	1,635	**1,635**	1,661
Series 2000-1	2015	7.5%	808	**808**	817
Series 2002-1	2017	7.0%	4,295	**4,295**	4,351
Total Multifamily Mortgage Pass-Through Bonds				**$ 15,739**	$ 19,708

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

			2004			2003
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
Series 1999	2009-2040	5.4% to 5.8%	$ -	$ 3,160	**$ 3,160**	$ 3,185
Series 2000	2032	5.85%	-	3,690	**3,690**	3,780
Series 2001	2005-2043	3.2% to 5.35%	435	7,300	**7,735**	7,790
Total Multifamily Risk Sharing Bonds					**$ 14,585**	$ 14,755

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

	2004	2003
TOTAL BONDS OUTSTANDING	**$ 1,420,122**	$ 1,383,859

Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2004, and 2003:

	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

	Balance July 1, 2002	**Additions**	**Deductions**	**Balance June 30, 2003**	**Amounts Due Within One Year**
Homeownership Mortgage Program Bonds	$ 1,379,509,257	$ 405,150,408	$ 506,838,635	$ 1,277,821,030	$ 24,887,013
Multiple Purpose Bonds	50,818,463	19,980,000	21,274,031	49,524,432	2,250,000
Multifamily Housing Revenue Bonds	19,495,000	2,555,000	-	22,050,000	-
Multifamily Mortgage Pass-Through Bonds	15,711,374	4,372,719	375,181	19,708,912	434,279
Housing Development Revenue Bonds	930,000	-	930,000	-	-
Multifamily Risk Sharing Bonds	14,865,000	-	110,000	14,755,000	170,000
	$ 1,481,329,094	$ 432,058,127	$ 529,527,847	$ 1,383,859,374	$ 27,741,292

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
2005	$ 24,315,000	$ 53,679,681	$ 2,300,000	$ 2,088,593	$ 35,000	$ 364,517
2006	25,130,000	53,175,611	2,360,000	2,028,530	35,000	364,254
2007	26,115,000	52,216,404	2,415,000	1,958,266	40,000	363,265
2008	26,960,000	51,171,242	2,500,000	1,877,616	40,000	362,340
2009	27,405,000	50,025,118	2,580,000	1,786,400	45,000	360,100
2010-2014	157,275,000	229,992,354	15,498,000	7,220,419	255,000	1,774,705
2015-2019	180,575,000	187,416,241	14,915,000	3,606,895	335,000	1,703,019
2020-2024	207,480,000	137,020,178	5,950,000	371,154	445,000	1,601,524
2025-2029	234,745,000	77,125,387	-	-	575,000	1,465,813
2030-2034	222,825,000	29,981,198	-	-	7,245,000	1,041,921
2035-2039	-	14,695,776	-	-	13,000,000	40,959
2040-2044	185,222,000	11,451,166	-	-	-	-
Total	$ 1,318,047,000	$ 947,950,356	$ 48,515,000	$ 20,937,873	$ 22,050,000	$ 9,442,417

Year End	Multifamily Mortgage Pass-Through Bonds		Multifamily Risk Sharing Bonds	
June 30	Principal	Interest	Principal	Interest
2005	$ 340,433	$ 995,138	$ 175,000	$ 804,353
2006	360,673	965,850	185,000	795,550
2007	385,869	941,239	195,000	786,182
2008	412,758	914,973	205,000	776,200
2009	1,220,667	856,624	220,000	765,378
2010-2014	5,445,575	2,932,487	1,025,000	3,653,583
2015-2019	7,573,511	739,921	1,220,000	3,357,045
2020-2024	-	-	1,645,000	2,966,663
2025-2029	-	-	2,235,000	2,439,050
2030-2034	-	-	2,625,000	1,724,321
2035-2039	-	-	2,475,000	1,045,822
2040-2044	-	-	2,380,000	316,312
2045-2049	-	-	-	-
Total	$ 15,739,486	$ 8,346,232	$ 14,585,000	$ 19,430,459

Note 6. Refunding of Debt:

In December of 2002, the Authority issued $19,980,000 of Multiple Purpose Bonds, 2002 Series B to refund $19,980,000 of Multifamily Housing Bonds, 1992 Series A, 1992 Series B and 1992 Series C. This refunding was structured so that the average life of the bonds was shortened by approximately nine months. As a result, over the next twenty years, the cash flow required for debt service of the Multiple Purpose Bonds 2002 Series B will be $6,879,525 less than the cash flow required for debt service of the Multifamily Housing Bonds, 1992 Series A, 1992 Series B and 1992 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 $3,727,300.

In May of 2003, the Authority issued $52,900,000 of variable rate Homeownership Mortgage Bonds, 2003 Series C-1 and 2003 Series C-2 to refund $52,900,000 of Homeownership Mortgage Bonds, 1993 Series A. The refunding was structured so that the average life of the bonds was extended by approximately 18 years. The purpose of the refunding was to restructure the debt to allow the recycling of mortgage prepayments. As a result, over the next thirty 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 Series C-1 and 2003 Series C-2 will be $21,286,000 more than the cash flow required for debt service of the Homeownership Mortgage Bonds, 1993 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 $9,065,355.

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 less 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.

Note 7. Interest Rate Swaps:

Swap Objectives:

As a method to lower the costs of long-term debt, the Authority has entered into an interest rate swap agreement in connection with a variable-rate bond series. The objective of the swap is to change the variable-rate on the bonds to a synthetic fixed rate.

Swap Terms:

The terms of the Authority's swap are as follows:

Bond Series:	2003 C-1	Effective Date:	June 18, 2004
Notional Amount:	$26,500,000	Termination Date:	May 13, 2013
Fixed Rate:	3.40%	Variable Rate:	57% LIBOR +.42%

As of June 30, 2004, the swap had a negative fair value of $347,345. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value amounts, obtained from the counterparty, represent mid-market valuations that approximate the current economic value using prices and rates at the average of the estimated bid and offer amounts.

Swap Risks:

Credit Risk: As of June 30, 2004, the Authority was not exposed to any credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The SWAP counterparty was rated AAA by Standard and Poor's Corporation and Aaa by Moody's Investors Service.

Basis Risk: The swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

Termination Risk: The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the swap contract. The swap may be terminated by the Authority if the counterparty's credit quality rating falls below Baa3 as determined by Moody's Investors Service or BBB- as determined by Standard and Poor's Corporation. If the swap was terminated, the variable-rate bond would no longer carry a synthetic rate.

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, 2004:

Year End	Variable-Rate Bond		Interest Rate	
June 30	Principal	Interest	Swap (net)	Total
2005	$ -	$ 251,750	$ 430,772	$ 682,522
2006	-	251,750	583,000	834,750
2007	-	251,750	583,000	834,750
2008	-	251,750	583,000	834,750
2009	-	251,750	583,000	834,750
2010-2014	-	1,006,800	2,332,000	3,338,800
2015-2019	-	1,258,500	-	1,258,500
2020-2024	-	1,258,500	-	1,258,500
2025-2029	-	1,258,500	-	1,258,500
2030-2032	26,400,000	755,250	-	27,155,250
Total	$ 26,400,000	$ 6,796,300	$ 5,094,772	$ 38,291,072

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.

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:

	2004	2003
Bond and note reserve	**$ 2,837,780**	$ 3,325,144
Program operations reserve	**5,987,973**	9,361,629
Total	**$ 8,825,753**	$ 12,686,773

Note 9. Commitments:

As of June 30, 2004, the Authority had the following Homeownership Mortgage Program Bond commitments:
Commitments to purchase Homeownership mortgage loans aggregating $66,282,307

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, 2004, and 2003, for the Homeownership Mortgage Program Bonds and the Multiple Purpose Bonds follows:

	2004		2003	
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)	$ 1,861,302	$ (47,561)	$ 995,105	$ 398
Other current assets	269,328,687	8,988,684	329,322,337	9,792,568
Noncurrent assets	1,282,347,395	77,162,326	1,184,288,440	76,867,480
Total Assets	$ 1,553,537,384	$ 86,103,449	$ 1,514,605,882	$ 86,660,446
Liabilities and Net Assets				
Current liabilities	$ 33,223,377	$ 2,652,643	$ 36,338,131	$ 2,609,970
Noncurrent liabilities	1,295,983,822	45,114,016	1,253,757,010	47,274,432
Total Liabilities	1,329,207,199	47,766,659	1,290,095,141	49,884,402
Net assets:				
Restricted by bond indentures	224,330,185	38,336,790	224,510,741	36,776,044
Total liabilities and net assets	$ 1,553,537,384	$ 86,103,449	$ 1,514,605,882	$ 86,660,446
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	$ 62,040,194	$ 4,260,960	$ 82,487,762	$ 6,213,106
Operating Expenses	62,256,569	2,700,214	79,373,875	2,996,704
Operating Income	(216,375)	1,560,746	3,113,887	3,216,402
Transfers In	35,819	-	-	-
Change in net assets	(180,556)	1,560,746	3,113,887	3,216,402
Beginning net assets	224,510,741	36,776,044	221,396,854	33,559,640
Ending net assets	$ 224,330,185	$ 38,336,790	$ 224,510,741	$ 36,776,042
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ 85,279,026	$ 5,784,210	$ 154,321,665	$ 5,166,140
Noncapital financing activities	(18,078,438)	(4,387,838)	(173,688,943)	(4,322,880)
Investing actitvities	(106,453,509)	(1,683,036)	35,532,617	(3,349,619)
Net change	(39,252,921)	(286,664)	16,165,339	(2,506,359)
Beginning cash and cash equivalents	244,491,232	4,198,028	228,325,893	6,704,387
Ending cash and cash equivalents	$ 205,238,311	$ 3,911,364	$ 244,491,232	$ 4,198,028

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 $132,788, $121,671 and $103,483 for the years ended June 30, 2004, 2003 and 2002, respectively.

Note 12. Subsequent Events:

In October of 2004, the Authority issued $67,000,000 of Homeownership Mortgage Bonds Series 2004 E and F. The Bonds will mature on May 1, 2005, through May 1, 2028, with interest rates from 1.55% to 5.25%. In October of 2004, the Authority issued $33,000,000 of Homeownership Mortgage Bonds Series 2004 G. The Bonds will mature on May 1, 2034, 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, 2004, the Authority managed its risks as follows:

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

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South Dakota Housing Development Authority

Supplementary Information

June 30, 2004

Supplemental Schedule of Net Assets

As of June 30, 2004

Assets	***General Operating Account***	***Homeownership Mortgage Program Bonds***	***Multifamily Housing Trust Bonds***	***Multifamily Housing Revenue Bonds***	***Multifamily Mortgage Pass-Through Bonds***	***Housing Development Revenue Bonds***	***Multifamily Risk Sharing Bonds***	***Combined Total***
Current Assets								
Cash and cash equivalents	$ 3,378,841	$ 205,238,311	$ 3,911,364	$ 1,042,609	$ 47	$ -	$ 454,395	**$ 214,025,567**
Investment in securities	2,648,950	35,344,798	2,201,964	107,616	-	-	-	**40,303,328**
Mortgage loans receivable	851,942	21,622,943	2,279,879	-	-	-	-	**24,754,764**
Guaranteed mortgage securities	-	-	-	35,000	340,172	-	166,782	**541,954**
Interest receivable	388,851	7,122,635	595,477	4,729	6	-	230,736	**8,342,434**
Other receivables	288,022	-	-	-	-	-	-	**288,022**
Other assets	2,268,341	-	-	-	-	-	-	**2,268,341**
Due from (to) other funds	(1,813,741)	1,861,302	(47,561)	-	-	-	-	**-**
Total Current Assets	8,011,206	271,189,989	8,941,123	1,189,954	340,225	-	851,913	**290,524,410**
Noncurrent Assets								
Investment in securities	25,474,157	364,207,383	35,443,624	176,804	-	-	581,960	**425,883,928**
Mortgage loans receivable	29,639,998	902,859,047	41,115,791	-	-	-	-	**973,614,836**
Guaranteed mortgage securities	-	-	-	20,621,643	15,399,314	-	13,853,936	**49,874,893**
Other receivables	-	4,390,918	-	-	-	-	-	**4,390,918**
Furniture and equipment, at cost, less accumulated depreciation	1,308,060	-	-	-	-	-	-	**1,308,060**
Deferred financing costs, net	-	10,890,047	602,911	198,014	-	-	-	**11,690,972**
Total Noncurrent Assets	56,422,215	1,282,347,395	77,162,326	20,996,461	15,399,314	-	14,435,896	**1,466,763,607**
Total Assets	64,433,421	1,553,537,384	86,103,449	22,186,415	15,739,539	-	15,287,809	**1,757,288,017**
Liabilities								
Current Liabilities								
Bonds payable	-	24,315,000	2,300,000	35,000	340,433	-	175,000	**27,165,433**
Accrued interest payable	-	8,205,289	352,643	63,622	-	-	248,765	**8,870,319**
Accounts payable and other liabilities	2,934,367	668,088	-	-	-	-	98,796	**3,701,251**
Multifamily escrows and reserves	21,878,702	-	-	-	-	-	132,680	**22,011,382**
Total Current Liabilities	24,813,069	33,188,377	2,652,643	98,622	340,433	-	655,241	**61,748,385**
Noncurrent Liabilities								
Bonds payable	-	1,296,018,822	45,114,016	22,015,000	15,399,053	-	14,410,000	**1,392,956,891**
Accounts payable and other liabilities	700,000	-	-	-	-	-	-	**700,000**
Total Noncurrent Liabilities	700,000	1,296,018,822	45,114,016	22,015,000	15,399,053	-	14,410,000	**1,393,656,891**
Total Liabilities	25,513,069	1,329,207,199	47,766,659	22,113,622	15,739,486	-	15,065,241	**1,455,405,276**
Net Assets								
Invested in Capital Assets	1,308,060	-	-	-	-	-	-	**1,308,060**
Restricted by Bond Indentures	8,825,753	224,330,185	38,336,790	72,793	53	-	222,568	**271,788,142**
Restricted by HOME Program	28,786,539	-	-	-	-	-	-	**28,786,539**
Total Net Assets	$ 38,920,352	$ 224,330,185	$ 38,336,790	$ 72,793	$ 53	$ -	$ 222,568	**$ 301,882,741**

See Accompanying Independent Auditor's Report.

Supplemental Schedule of Operations and Changes in Net Assets

For the Year Ended June 30, 2004

Operating Revenues	***General Operating Account***	***Homeownership Mortgage Program Bonds***	***Multifamily Housing Trust Bonds***	***Multifamily Housing Revenue Bonds***	***Multifamily Mortgage Pass-Through Bonds***	***Housing Development Revenue Bonds***	***Multifamily Risk Sharing Bonds***	***Combined Total***
Interest income on mortgage loans	$ 21,116	$ 55,275,065	$ 3,820,120	$ -	$ -	$ -	$ -	**$ 59,116,301**
Interest on guaranteed mortgage securities	-	-	-	252,074	1,205,930	-	1,045,819	**2,503,823**
Interest on investments	412,693	12,839,834	1,695,291	17,208	135	-	33,919	**14,999,080**
Net decrease in fair value of investments	(1,615,724)	(8,233,601)	(1,289,086)	-	-	-	-	**(11,138,411)**
HUD contributions	26,885,239	-	-	-	-	-	-	**26,885,239**
Fee, grant and other income	6,391,869	2,158,896	34,635	-	-	-	-	**8,585,400**
Total Operating Revenues	32,095,193	62,040,194	4,260,960	269,282	1,206,065	-	1,079,738	**100,951,432**
Operating Expenses								
Interest	14,025	55,859,272	2,130,510	329,038	1,209,933	-	809,428	**60,352,206**
Housing assistance payments	21,963,891	-	-	-	-	-	-	**21,963,891**
Servicer and other fees	-	1,736,993	-	-	-	-	-	**1,736,993**
General and administrative	3,925,763	346,853	385,248	144,866	-	-	112,732	**4,915,462**
Amortization of deferred financing costs	-	3,847,744	184,456	-	-	-	-	**4,032,200**
Other housing programs	5,392,243	465,707	-	-	-	-	-	**5,857,950**
Total Operating Expenses	31,295,922	62,256,569	2,700,214	473,904	1,209,933	-	922,160	**98,858,702**
Net Income Before Interfund Transfers	799,271	(216,375)	1,560,746	(204,622)	(3,868)	-	157,578	**2,092,730**
Interfund Transfers	-	35,819	-	-	-	(35,819)	-	**-**
Net Income	799,271	(180,556)	1,560,746	(204,622)	(3,868)	(35,819)	157,578	**2,092,730**
Net Assets, beginning of year	38,121,081	224,510,741	36,776,044	277,415	3,921	35,819	64,990	**299,790,011**
Net Assets, end of year	$ 38,920,352	$ 224,330,185	$ 38,336,790	$ 72,793	$ 53	$ -	$ 222,568	**$ 301,882,741**

See Accompanying Independent Auditor's Report.

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