South Dakota Housing Development Authority

Financial Report

June 30, 2014 and 2013

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of South Dakota Housing Development Authority, a component unit of the State of South Dakota, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Dakota Housing Development Authority, as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As described in Note 2 to the financial statements, the South Dakota Housing Development Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 16 to the financial statements, the South Dakota Housing Development Authority has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise South Dakota Housing Development Authority's financial statements. The supplementary schedules set forth on pages 37 through 43 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014 on our consideration of South Dakota Housing Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Housing Development Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
October 21, 2014

This section of the South Dakota Housing Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2014 (FY 2014) and 2013 (FY 2013). This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, notes to the financial statements, and supplementary information.

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

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

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

The Statement of Net Position provides information about the liquidity and solvency of the Authority by indicating the nature and the amounts of investments in resources (assets), its deferred outflows of resources, obligations to Authority creditors (liabilities), its deferred inflows of resources and its resulting net position. Net position represents the amount of total assets, plus deferred outflows of resources, less total liabilities, less deferred inflows of resources. The organization of the statement separates assets and liabilities into current and non-current components.

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

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

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

Changes in Financial Position

The following tables show the significant changes that have taken place over the past three fiscal years ended FY 2014, FY 2013 and June 30, 2012 (FY 2012) for the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Net Position of the Authority:

Changes in Statement of Revenues, Expenses, and Net Position

(In Millions of Dollars)

	FY 2014	FY 2013 Restated	FY 2012 Restated	% Change 2014/2013	% Change 2013/2012
Revenues:					
Interest on mortgages	$ 47.1	$ 59.8	$ 74.5	-21.2%	-19.7%
Investment income	18.6	14.4	17.4	29.2%	-17.2%
Increase (decrease) in fair market value of investments	3.2	(22.6)	3.1	114.2%	-829.0%
HUD contributions	30.6	31.9	36.8	-4.1%	-13.3%
Other income	10.6	6.9	4.8	53.6%	43.8%
Total revenues	110.1	90.4	136.6	21.8%	-33.8%
Expenses:					
Interest	42.6	54.6	67.8	-22.0%	-19.5%
Servicer fees	2.5	3.3	4.2	-24.2%	-21.4%
Arbitrage rebate provision (benefit)	0.1	(1.8)	(1.5)	105.6%	20.0%
General and administrative	6.9	5.8	5.8	19.0%	0.0%
Housing assistance payments	23.4	23.9	24.5	-2.1%	-2.4%
Other	8.9	9.9	13.1	-10.1%	-24.4%
Total expenses	84.4	95.7	113.9	-11.8%	-16.0%
Change in net position	$ 25.7	$ (5.3)	$ 22.7	584.9%	-123.3%

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Changes in Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position
(In Millions of Dollars)

	FY 2014	FY 2013 Restated	FY 2012 Restated	% Change 2014/2013	% Change 2013/2012
Assets:					
Cash and equivalents	$ 122.3	$ 166.5	$ 153.2	-26.5%	8.7%
Investments	610.6	594.2	510.0	2.8%	16.5%
Mortgages and securities	956.3	1,131.2	1,443.0	-15.5%	-21.6%
Interest receivable	7.5	9.1	10.4	-17.6%	-12.5%
Capital assets	6.3	6.6	6.5	-4.5%	1.5%
Other	11.1	3.4	3.7	226.5%	-8.1%
Total assets	1,714.1	1,911.0	2,126.8	-10.3%	-10.1%
Deferred Outflow of Resources					
Deferred loss on refunding	1.3	1.8	1.7	-27.8%	5.9%
Deferred forward contract outflow	0.2	-	-	-	-
Deferred swap outflow	18.4	24.6	37.0	-25.2%	-33.5%
Total assets and deferred outflows	$ 1,734.0	$ 1,937.4	$ 2,165.5	-10.5%	-10.5%
Liabilities:					
Current bonds payable	$ 29.2	$ 46.2	$ 49.4	-36.8%	-6.5%
Interest payable	6.6	8.2	10.3	-19.5%	-20.4%
Fair value of interest rate swaps	18.6	24.6	37.0	-24.4%	-33.5%
Other	13.1	16.0	19.7	-18.1%	-18.8%
Noncurrent bonds payable	1,181.8	1,383.0	1,584.8	-14.5%	-12.7%
Total liabilities	1,249.3	1,478.0	1,701.2	-15.5%	-13.1%
Deferred Inflow of Resources					
Deferred forward contract inflow	-	0.3	-	-	-
Total liabilities and deferred inflows	1,249.3	1,478.3	1,701.2	-15.5%	-13.1%
Net Position:					
Net Investment in capital assets	(0.2)	0.1	(0.1)	-300.0%	-200.0%
Restricted by state statute	16.0	7.1	6.1	125.4%	16.4%
Restricted by bond indentures	401.2	387.2	398.0	3.6%	-2.7%
Restricted by HOME and NSP program	67.7	64.7	60.3	4.6%	7.3%
Total net position	484.7	459.1	464.3	5.6%	-1.1%
Total liabilities, deferred inflows, and net position	$ 1,734.0	$ 1,937.4	$ 2,165.5	-10.5%	-10.5%

Financial Highlights for FY 2014

- Total operating revenues increased 21.8% to $110.1 million for FY 2014, from $90.4 million in FY 2013. The main factor contributing to this increase was the $3.2 million unrealized gain in FY 2014 versus the $22.6 million unrealized loss in FY 2013. This $25.8 million swing was partially offset by interest income on loans decreasing by $12.8 million from FY 2013 as repayments and prepayments decreased the size of the homeownership loan portfolio. Also contributing to the increase was a $7.5 million receivable from the State of South Dakota to administer the Housing Opportunity Fund. This Fund was created by the 2013 legislature for the development of work force housing. The 2014 legislature appropriated $2.5 million per year for the next three years to this Fund.

- Total operating expenses decreased 11.7% to $84.4 million for FY 2014, from $95.7 million in FY 2013. The primary components of the decrease were servicer fees and interest expense. The decrease in servicer fees is from the shrinking homeownership loan portfolio; and the decrease in interest expense is caused by the $218.2 million decrease in bonds outstanding at year end.

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- Net position of the Authority for FY 2014 was $484.7 million, which represented an increase of $25.6 million, or 5.6%, from the FY 2013 net position level.

- Mortgage loans receivable, net of adjustments for the potential for loan loss was $956.3 million for FY 2014, which represented a decrease of $174.9 million, or 15.5% for FY 2014, from the FY 2013 level of $1,131.2 million. In the last of half of FY 2012, the Authority changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans, as long as bonds can be issued to finance these purchases, otherwise the MBS will be sold to investors and will not become part of the portfolio.

- Interest received on mortgage loans was $47.1 million for FY 2014, which represented a decrease of $12.7 million from the $59.8 million reported in FY 2013. As the loan balance decreased, so did the interest received on loans.

- Investment income was $18.6 million for FY 2014, which represented an increase of $4.2 million, or 29.2% in FY 2014, from $14.4 million in FY 2013 due to the higher interest rates received on new investments. The fair market value increased by $3.2 million in FY 2014 and decreased by $22.6 million in FY 2013. The FY 2014 fair market increase was a result of falling interest rates at fiscal year end. Ignoring the effects of the net increase (decrease) in fair market value of investments, the change in net position would have been $22.5 million for FY 2014 compared to $17.4 million for FY 2013.

- Deferred outflows of resources from interest rate swaps at the end of FY 2014 decreased to $18.4 million from $24.6 million at the end of FY2013, or 25.2%. The decrease was a result of two swap terminations at par and the remaining swaps getting closer to their optional par termination dates.

- Bonds and notes outstanding of the Authority were $1,211.0 million for FY 2014, which was a decrease of $218.2 million, or 15.3% in FY 2014, from $1,429.2 million in FY 2013 due to more bonds being redeemed or maturing during the year than bonds being issued.

- Interest expense on bonds and notes outstanding decreased $12.0 million, or 22.0% in FY 2014, from $54.6 million in FY 2013 as a result of fewer bonds outstanding during the year.

- The Authority performed an operating transfer of $3.6 million from the Homeownership Mortgage Loan Program ($2.6 million) and the Single Family Mortgage Loan Program ($1.0 million) to the General Operating Account. The Authority transfers up to 1% of loan purchases from the Homeownership Mortgage Loan Program and 0.5% of the outstanding loan balance of the Single Family Mortgage Loan Program to the General Operating Account to pay for operating expenses. Also making up part of the $2.6 million transfer from the Homeownership Mortgage Loan Program was a $1.0 million dollar transfer to purchase materials for the new 3 bedroom Governor's House Program. Sales of these new homes will go towards repaying this transfer.

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Financial Highlights for FY 2013

- Total operating revenues decreased 33.8% to $90.4 million for FY 2013, from $136.6 million in FY 2012. Three main factors contributed to this decrease. The investment portfolio experienced unrealized losses of $22.6 million from FY 2012; interest income on loans decreased by $14.7 million from FY 2012 as repayments and prepayments decreased the size of the homeownership loan portfolio; and HUD contributions decreased by $4.9 million due to the sunsetting of federal programs created under the American Recovery and Reinvestment Act of 2009.

- Total operating expenses decreased 16.0% to $95.7 million for FY 2013, from $113.9 million in FY 2012. The primary components of the decrease were grant expense, servicer fees and interest expense. The decrease in grant expense, is a result of the above mentioned decrease in federal revenue, the decrease in servicer fees from the shrinking homeownership loan portfolio; and the decrease in interest expense is caused by the $205.0 million decrease in bonds outstanding at year end.

- Net position of the Authority for FY 2013 was $459.1 million, which represented a decrease of $5.2 million, or 1.1%, from the FY 2012 net position level.

- Mortgage loans receivable, net of adjustments for the potential for loan loss was $1,131.2 million for FY 2013, which represented a decrease of $311.8 million, or 21.6% for FY 2013, from the FY 2012 level of $1,443 million. In the last of half of FY 2012, the Authority changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans, as long as bonds can be issued to finance these purchases, otherwise the MBS will be sold to investors and will not become part of the portfolio.

- Interest received on mortgage loans was $59.8 million for FY 2013, which represented a decrease of $14.7 million from the $74.5 million reported in FY 2012. As the loan balance decreased, so did the interest received on loans.

- Investment income was $14.4 million for FY 2013, which represented a decrease of $3.0 million, or 17.2% in FY 2013, from $17.4 million in FY 2012 due to the low interest rates received on new investments. The fair market value decreased by $22.6 million in FY 2013 and increased by $3.1 million in FY 2012. The FY 2013 fair market decrease was a result of rising interest rates at fiscal year end. Ignoring the effects of the net increase (decrease) in fair market value of investments, the change in net position would have been $17.4 million for FY 2013 compared to $19.6 million for FY 2012.

- Deferred outflows of resources from interest rate swaps at the end of FY 2013 decreased to $24.6 million from $37.0 million at the end of FY 2012, or 33.5%, as a result of an increasing interest rate environment.

- Bonds and notes outstanding of the Authority were $1,429.2 million for FY 2013, which was a decrease of $205.0 million, or 12.5% in FY 2013, from $1,634.2 million in FY 2012 due to more bonds being redeemed or maturing during the year than bonds being issued.

- Interest expense on bonds and notes outstanding decreased $13.2 million, or 19.5% in FY 2013, from $67.8 million in FY 2012 as a result of fewer bonds outstanding during the year.

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- The Authority performed an operating transfer of $2.5 million from the Homeownership Mortgage Loan Program ($2 million) and the Single Family Mortgage Loan Program ($.5 million) to the General Operating Account. The Authority transfers up to 1% of loan purchases from the Homeownership Mortgage Loan Program and 0.5% of the outstanding loan balance of the Single Family Mortgage Loan Program to the General Operating Account to pay for operating expenses.

Loan Portfolio Activity for FY 2014 and FY 2013

The Authority's loan portfolio is comprised of single family and multifamily development loans for low- and moderate-income individuals and families. The Homeownership Mortgage Loan Program is the Authority's largest single category of assets. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by the Authority.

With the extinguishment of the New Issue Bond Program (NIBP) proceeds used to finance mortgage revenue bonds, the Authority changed its business model in April 2012 from purchasing whole loans financed with bond proceeds to purchasing loans and securitizing the loans into MBS. The MBS can then be held in the portfolio as an investment, sold to the secondary market using forward contracts to hedge the interest rate risk, or financed with bond proceeds (if the market allows).

In February 2013 the Authority implemented the Mortgage Credit Certificate (MCC) program to utilize bonding authority that was set to expire. The MCC gives the Authority a competitive advantage over the conventional market by allowing the borrower a tax credit on their income tax return which in return allows a lower effective annual percentage rate on their loan.

The Homeownership Mortgage Loan Program purchased approximately $142 million of MBS's during FY 2014 compared to $143 million in FY 2013.

Debt Administration

The Authority is authorized to issue debt to purchase or originate mortgage loans on single family and multifamily residential properties. As of FY 2014, the Authority had $1,211.0 million in bonds outstanding, a 15.3% decrease from FY 2013. As of FY 2013, the Authority had $1,429.2 million in bonds outstanding, a 12.5% decrease from FY 2012.

The Authority issued a total of $95.8 million in bonds in FY 2014 as new long-term debt. Of that amount, $41.0 million was used to finance the Homeownership Mortgage Loan Program and $54.8 million was used to refund existing bonds. No bonds were issued to preserve bonding authority. During FY 2014 the Agency chose to convert $106.6 million of bonding authority to MCC authority in another effort to support first-time homebuyers. The Authority issued a total of $195.2 million in bonds in FY 2013. Of that total, $103.5 million was issued as new long-term debt and $91.7 was used to refund existing bonds. During FY 2013 the Agency chose to convert $235.9 million of bonding authority to MCC authority in another effort to support first-time homebuyers. No bonds were issued to preserve bonding authority.

The Authority retired or paid at maturity a total of $313.0 million in bonds in FY 2014. $266.8 million was redeemed from prepayments and excess reserves and $46.2 million was maturing principal. The Authority retired or paid at maturity a total of $400.5 million in bonds in FY 2013. $351.1 million was redeemed from prepayments and excess reserves and $49.4 million was maturing principal.

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In FY 2014 and FY 2013, the Authority's Homeownership Mortgage Bonds were rated AAA by Standard and Poor's, and Aa1 by Moody's Investors Service. In FY 2014 and FY 2013, the Authority's Multiple Purpose Bonds were rated Aa3 by Moody's Investors Service. In FY 2014 and FY 2013, the Authority's Single Family Mortgage Bonds were rated Aa3 by Moody's Investors 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.

Capital Assets

Capital assets decreased by $0.3 million in FY 2014 from $6.6 million in FY2013. This net change is due to the completion of the off-site operating system and backup system started in FY 2013 and the purchase of a new phone system along with the amortization of existing assets.

Capital assets increased by $0.1 million in FY 2013 from $6.5 million in FY 2012. This net change is due to the addition of an off-site operating system and backup system and the amortization of existing assets.

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

Economic Outlook

Economic conditions in South Dakota are relatively good in comparison to the rest of the nation due to prudent fiscal policy. The State of South Dakota operates on a balanced budget and the State's pension fund is over 100% funded. The Authority's foreclosure rate of 0.79%, delinquency rate of 4.97% and the State's unemployment rate of 3.8% are well below the national averages. These percentages, along with stable home prices, have all contributed to the success of the Authority over the past five years. Going forward the Authority will try to maximize its return on investments and will continue to look for innovative ways to finance the Authority's Single and Multifamily programs.

Overview

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

Assets		**2014**		2013
Current Assets				Restated
Cash and cash equivalents (Note 3)	**$**	**122,309,211**	$	166,518,140
Investment securities - other (Note 3)		**40,176,847**		36,249,594
Mortgage loans receivable, net (Note 4)		**49,671,165**		58,764,206
Guaranteed mortgage securities (Note 2)		**1,732,132**		1,926,493
Interest receivable		**7,532,287**		9,132,475
Other receivables		**2,785,592**		289,337
Other assets		**2,443,922**		1,586,215
Hedging derivatives (Note 7)		**-**		269,306
Total Current Assets		**226,651,156**		274,735,766
Noncurrent Assets				
Investment securities - other (Note 3)		**441,621,756**		460,378,566
Investments - mortgage-backed securities program (Note 3)		**128,780,293**		97,495,263
Mortgage loans receivable, net (Note 4)		**866,231,868**		1,027,725,531
Guaranteed mortgage securities (Note 2)		**38,679,001**		42,758,907
Other receivables		**5,877,016**		1,270,141
Furniture and equipment, at cost, less accumulated depreciation		**1,193,102**		1,381,625
Building, at cost, less accumulated depreciation		**4,238,361**		4,364,094
Land improvement, at cost, less accumulated depreciation		**608,342**		665,375
Land		**220,409**		220,409
Total Noncurrent Assets		**1,487,450,148**		1,636,259,911
Total Assets		**1,714,101,304**		1,910,995,677
Deferred Outflows of Resources				
Deferred loss on refunding		**1,290,031**		1,776,377
Deferred forward contract outflow (Note 7)		**216,585**		-
Deferred swap outflow (Note 7)		**18,393,671**		24,583,601
Total Deferred Outflows of Resources		**19,900,287**		26,359,978
Total Assets and Deferred Outflows of Resources	**$**	**1,734,001,591**	$	1,937,355,655
Liabilities				
Current Liabilities				
Bonds payable (Note 5)	**$**	**29,239,239**	$	46,152,089
Accrued interest payable		**6,555,955**		8,206,699
Accounts payable and other liabilities (Note 15)		**1,474,138**		1,349,548
Multifamily escrows and reserves		**11,349,550**		14,535,295
Total Current Liabilities		**48,618,882**		70,243,631
Noncurrent Liabilities				
Bonds payable (Note 5)		**1,181,826,808**		1,383,050,959
Accounts payable and other liabilities (Note 15)		**230,834**		168,093
Hedging derivatives (Note 7)		**18,610,256**		24,583,601
Total Noncurrent Liabilities		**1,200,667,898**		1,407,802,653
Total Liabilities		**1,249,286,780**		1,478,046,284
Deferred Inflow of Resources				
Deferred forward contract inflow (Note 7)		**-**		269,306
Total Liabilities and Deferred Inflow of Resources		**1,249,286,780**		1,478,315,590
Net Position				
Net investment in capital assets		**(184,786)**		131,503
Restricted by state statue		**15,967,989**		7,093,088
Restricted by bond indentures		**401,212,450**		387,149,754
Restricted by HOME and NSP Program		**67,719,158**		64,665,720
Total Net Position		**484,714,811**		459,040,065
Total Liabilities, Deferred Inflow of Resources, and Net Position	**$**	**1,734,001,591**	$	1,937,355,655

Statements of Revenues, Expenses, and Changes in Net Position — *For the Years Ended June 30*

Operating Revenues	**2014**	2013 Restated
Interest income on mortgage loans and guaranteed mortgage securities	**$ 47,111,255**	$ 59,766,131
Earnings on investments and program mortgage-backed securities	**18,556,219**	14,445,312
Net increase (decrease) in the fair market value of investments	**3,219,942**	(22,648,436)
HUD contributions	**30,653,728**	31,936,346
Other income	**10,603,497**	6,921,572
Total Operating Revenues	**110,144,641**	90,420,925
Operating Expenses		
Interest	**42,585,214**	54,549,120
Housing assistance payments	**23,433,261**	23,892,090
Servicer fees	**2,512,160**	3,312,486
Arbitrage rebate expense (benefit)	**62,741**	(1,779,327)
General and administrative	**6,919,525**	5,793,947
Bond financing costs	**1,801,907**	1,460,528
Other housing programs	**4,432,310**	6,419,602
Provision for loan loss	**2,722,777**	2,035,527
Total Operating Expenses	**84,469,895**	95,683,973
Change in net position	**25,674,746**	(5,263,048)
Net position, beginning of fiscal year	**459,040,065**	464,303,113
Net Position, End of Fiscal Year	**$ 484,714,811**	$ 459,040,065

		2014		2013 Restated
Cash Flows Provided by Operating Activities				
Receipts from loan payments and program mortgage-backed securities	**$**	**344,558,883**	$	422,590,682
Receipts for program fees		**3,500,367**		7,020,697
Receipts from federal housing programs		**30,653,728**		31,936,346
Payments for loan programs and program mortgage-backed securities		**(147,523,305)**		(153,007,665)
Payments for operating expenses		**(6,109,568)**		(5,289,135)
Payments to employees		**(3,354,272)**		(3,408,972)
Payments for federal housing programs		**(23,433,261)**		(23,892,090)
Payments for other housing programs		**(7,844,910)**		(7,922,096)
Net Cash Provided by Operating Activities		**190,447,662**		268,027,767
Cash Flows Used in Noncapital Financing Activities				
Proceeds from sale of bonds		**95,845,000**		195,232,566
Principal paid on bonds		**(313,023,311)**		(400,499,018)
Interest paid on bonds		**(47,095,646)**		(59,322,203)
Bond issuance costs paid		**(1,801,907)**		(1,460,528)
Net Cash Used in Noncapital Financing Activities		**(266,075,864)**		(266,049,183)
Cash Flows Used in Capital and Related Financing Activities				
Purchase of fixed assets		**(208,574)**		(394,068)
Proceeds from sale of assets		**-**		32,377
Principal paid on bonds		**(55,000)**		(50,000)
Interest paid on capital debt		**(9,723)**		(15,283)
Net Cash Used in Capital and Related Financing Activities		**(273,297)**		(426,974)
Cash Flows Provided by (Used in) Investing Activities				
Purchase of investment securities		**(498,504,238)**		(628,271,140)
Proceeds from sale and maturities of investment securities		**513,282,154**		624,909,368
Interest received on investments		**16,914,654**		15,161,207
Net Cash Provided by (Used in) Investing Activities		**31,692,570**		11,799,435
Change in Cash and Cash Equivalents		**(44,208,929)**		13,351,045
Cash and Cash Equivalents, Beginning of Year		**166,518,140**		153,167,095
Cash and Cash Equivalents, End of Year	**$**	**122,309,211**	$	166,518,140
Reconciliation of Operating Income (Loss) to Cash Flows Provided by Operating Activities				
Operating income (loss)	**$**	**25,674,746**	$	(5,263,048)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest on bonds payable		**42,585,215**		54,549,120
Net (increase) decrease in fair market value of investments		**(3,219,942)**		22,648,436
Interest from investments		**(15,399,411)**		(13,952,491)
Bond financing costs		**1,801,907**		1,460,528
Provision for loan loss		**2,722,776**		2,035,527
Arbitrage		**-**		-
Depreciation		**474,107**		408,121
Changes in assets and liabilities				
Loan interest receivable		**1,258,834**		880,571
Accounts payable and other liabilities		**187,331**		(1,072,402)
Mortgage loans receivable		**172,138,195**		309,793,512
Investments - program mortgage-backed securities		**(26,629,514)**		(101,350,018)
Other receivables		**(7,103,130)**		99,125
Other assets		**(857,707)**		477,085
Multifamily escrows and reserves		**(3,185,745)**		(2,686,299)
Net Cash Provided by Operating Activities	**$**	**190,447,662**	$	268,027,767

Note 1 - Authorizing Legislation and Indentures:

Authorizing Legislation:

The South Dakota Housing Development Authority (the Authority) was created in 1973 by an Act of the South Dakota Legislature. The Authority was established for the purpose of encouraging the investment of private capital and stimulating the construction and rehabilitation of residential housing for the people of the State through the use of public financing including public construction, public loans, public purchase of mortgages and otherwise. The Authority may issue notes and bonds in principal amounts specifically approved by the Governor. The Internal Revenue Code of 1986 established a state ceiling for qualified private activity bonds applicable to the State of South Dakota for any calendar year. The calendar year state allocation for South Dakota is $296,825,000 for 2014. Amounts issued by the Authority shall not be deemed to constitute a debt of the State of South Dakota or any political subdivision thereof. The Authority is a business-type activity component unit of the State of South Dakota. As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

Description of Reporting Entity:

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

General Operating Account:

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

(i) payment of general and administrative expenses and other costs not payable by other funds of the Authority; and,

(ii) those activities deemed necessary to fulfill the Authority's corporate purposes for which special funds are not established.

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

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

Homeownership Mortgage Bonds:

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

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Single Family Mortgage Bonds:

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

Multiple Purpose Bonds:

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

Multifamily Housing Revenue Bonds:

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

Multifamily Mortgage Pass-Through Bonds:

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

Multifamily Risk Sharing Bonds:

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

Note 2 - Significant Accounting Policies:

Basis of Presentation:

The Authority, as a component unit of the State of South Dakota, follows standards established by the Governmental Accounting Standards Board (GASB). As required by government accounting standards, these financial statements present the Authority and its component units, entities for which the Authority is considered to be financially accountable. The criteria for inclusion in or exclusion from the financial reporting entity is outlined in GASB Statement 14 amended by GASB 61 and includes oversight responsibility, including financial accountability, over agencies by the Authority's Board of Commissioners. The Authority is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Authority.

Basis of Accounting:

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

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Interest Income:

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

Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, cash and cash equivalents are defined as investments with original maturities of ninety days or less and any participating funds in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The Authority essentially has on demand access to the entire amount of cash in the internal investment pool.

Investments-Program Mortgage-Backed Securities and Investment Securities:

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

Program Mortgage-Backed Securities:

Program mortgage-backed securities are backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association. The securities are carried at market value and unrealized gains and losses are included in income.

Mortgage Loans Receivable:

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

Some loans receivable contain provisions for the loans to become grants if certain criteria is met. The conversion of loans receivable to grants is calculated on an annual basis, though the debtor is not entitled to receive full credit until maturity of the loan agreement or upon meeting certain criteria. As loans receivable converted to grants are estimated, loans receivable is credited and a charge to operations is made through the provision for loan loss. Loans receivable includes credits of $14,865,330 and $14,459,827 as of June 30, 2014 and 2013, respectively. Upon maturity of the loan agreement or achievement of specified criteria, the applicable portion of the loan receivable balance is awarded to the debtors.

Guaranteed Mortgage Securities:

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

Fee Income:

Fees collected as reimbursement for costs incurred in developing and implementing the programs of the Authority and for other specific services are recorded as income in the period received.

Receivables:

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

Bond Premiums and Discounts:

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

Bond Issuance Costs:

Issuance costs on bonds are expensed as incurred.

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Derivative Instruments:

The fair values of both hedging derivatives and investment derivatives (if any) are presented on the Statement of Net Position, either as a derivative liability (negative fair value) or as a derivative asset (positive fair value). The change in the total fair value of derivatives that are determined to be effective hedges is recorded as a deferred inflow or outflow of resources on the Authority's Statement of Net Position. If a derivative were determined to be an ineffective hedge, it would be classified as an investment derivative, and the change in the total fair value would be presented as part of investment earnings. The Authority currently has two types of derivatives outstanding, both of which are effective hedges, therefore having no effect on net position: interest rate swaps and mortgage-backed security forward contracts.

Real Estate Owned:

Real estate owned and held for sale arises from foreclosures or other mortgage default related actions on properties pledged as collateral on mortgage loans. Real estate held for sale in connection with the Single Family and Multifamily Program is recorded at the unpaid principal balance on the loans as of the date the loans become real estate owned. Since most of the Single Family loans are insured or guaranteed, it is anticipated that the Authority will recover a majority of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds. The Single Family amounts determined to be uncollectible are recorded as an allowance for loan loss. Recoveries for Multi-Family nonperforming loans arise from the sale of such property. Estimates for amounts considered to be uncollectible are recorded as an allowance for loan loss.

Capital Asset Policy:

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

Inventory:

Other assets consist of governor's house 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 non-mortgage 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/(receivables) in the amount of ($719,934) and ($782,675) at June 30, 2014 and 2013, respectively, for arbitrage rebates which are included in accounts payable and other liabilities.

Escrows and Reserves:

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

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Revenue and Expense Recognition:

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's 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, bond issuance costs, and depreciation and administrative expenses related to the administration of the Authority's programs. The Authority does not have nonoperating revenue and expenses for the years ending June 30, 2014 and 2013.

Pass-Through Grants:

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

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses and other disclosures. Actual results could differ from those estimates.

Net Position:

Net Position is classified in the following three components:

- Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.
- Restricted– Consists of net position with constraints placed on their use by (1) bond indentures and (2) law through enabling legislation.
- Unrestricted – Consists of net position that does not meet the definition of net investment in capital assets or restricted.

Allowance for Loan Loss:

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

Reclassifications:

Certain items in the 2013 financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the change in net position.

Adoption of New Accounting Pronouncements:

In March 2012 the GASB issued Statement No 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement were adopted for the Authority's fiscal year ended June 30, 2014. The accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating the comparative financial statement information presented in this report for the fiscal year ending June 30, 2013. The cumulative effect was a net reduction of net position of $10.6 million as of June 30, 2013 (See Note 16).

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Recent Accounting Pronouncements:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to government employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. Under the new statements, a cost-sharing employer whose employees receive pensions through a trust will report a net pension asset or liability, deferred outflows or inflows of resources related to pensions and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. The share of collective net pension liability recognized by an individual employer should be based on the employer's relationship to all employers and non-employer contributing entities in the plan. The employer's proportion should be consistent with how contributions are determined; the use of the long-term contribution effort of the employer is encouraged. The measurement of collective net pension liability, pension expense and other key information will follow the same standards that apply to single and agent employers. The effects of changes to an employer's expected proportion of total employer-related contributions, as well as the effects of differences between the expected and actual proportionate share of total employer-related contributions each period, will be reported as a deferred outflow or inflow of resources and recognized in the employer's pension expense in a systematic and rational manner over a closed period representative of the average expected remaining service lives of employees, beginning with the period of adoption. Under the current standards, governments recognize only the portion of cost-sharing pension obligations related to their annual required contributions. GASB 68 will be effective for the Authority for the fiscal year ended June 30, 2015. The Authority is currently evaluating the impact this statement will have on financial reporting. Since the South Dakota Retirement System is 100% funded, the Authority expects that the implementation of GASB 68 will not have a material impact on the Authority's financial results.

Note 3 - Deposits and Investments:

Under the terms of the bond resolutions, the Authority is generally restricted to investments in direct general obligations of the United States of America, agencies and instrumentalities of the United States of America, negotiable or nonnegotiable certificates of deposit issued by a bank that is insured by the FDIC, obligations of the State or any agency or instrumentality thereof, or securities that are permissible for the investment of State public funds under the provisions of § 4-5-26. As of the years ended June 30, 2014 and 2013, 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, 2014 and 2013, of the Authority's deposits of $2,673,131 (carrying value of $1,653,144) and $2,992,074 (carrying value of $1,567,391), respectively, all were covered by insurance or collateral held in the Authority's name in accordance with the Authority's deposit policy.

The $2,116,999 and $2,100,108 of the Authority's cash and cash equivalents being held in the State's internal investment pool as of June 30, 2014 and 2013, respectively, is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the audit report of the South Dakota Investment Council, which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, SD 57501.

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Investments:

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

Interest Rate Risk: The Authority limits the maturities of investments for its restricted accounts. Investments of the Capital Reserve accounts must provide for the purposes thereof as estimated by the Authority. The investments must not mature later than the final maturity of the related Series of the Bonds. The average duration of individual securities will not exceed twenty years. Investments of the Mortgage Reserve accounts must provide for the purposes thereof as estimated by the Authority. The duration of 50% of individual securities will not exceed two years from the date of purchase or deposit. The Authority assumes that its callable investments will not be called. The Authority invests in mortgage pass-through securities issued by Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). Because prepayments of mortgages underlying these securities affect the principal and interest payments received by these securities, the securities are considered highly sensitive to interest rate risk. As of June 30, 2014 and 2013, 41% and 33%, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2014 and 2013, the Authority had investments maturing as follows:

		2014 Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**Greater Than 10**
U.S Government obligations	**$ 103,863,279**	**$ 1,981,897**	**$ 50,885,334**	**$ 50,212,568**	**$ 783,480**
U.S. Agency obligations	**495,779,930**	**35,737,559**	**84,083,657**	**43,176,602**	**332,782,112**
Money market/mutual funds	**118,049,068**	**118,049,068**	**-**	**-**	**-**
Investment agreements	**634,140**	**-**	**-**	**-**	**634,140**
Certificates of deposit	**6,433,400**	**2,096,862**	**4,336,539**	**-**	**-**
State obligations	**4,358,146**	**850,529**	**2,969,933**	**537,685**	**-**
Total	**$ 729,117,964**	**$ 158,715,914**	**$ 142,275,463**	**$ 93,926,855**	**$ 334,199,732**

		2013 Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	Greater Than 10
U.S Government obligations	$ 80,528,231	$ 10,583,632	$ 33,547,367	$ 35,356,046	$ 1,041,186
U.S. Agency obligations	499,602,084	21,408,529	203,975,982	30,570,789	243,646,784
Money market/mutual funds	163,311,410	163,311,410	-	-	-
Investment agreements	623,957	-	-	-	623,957
Certificates of deposit	6,659,396	3,479,337	3,180,059	-	-
State obligations	6,248,987	1,268,096	4,441,171	-	539,720
Total	$ 756,974,065	$ 200,051,004	$ 245,144,579	$ 65,926,835	$ 245,851,647

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At June 30, 2014 and 2013, certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2014			
	Homeownership Mortgage Bonds	**Single Family Mortgage Bonds**	**Multiple Purpose Bonds**	**Multifamily Risk Sharing Bonds**
Capital reserve for debt service	**$ 40,793,364**	**$ -**	**$ 3,068,178**	**$ 611,416**
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	**27,230,107**	**-**	**-**	**-**
Debt service reserve	**-**	**8,036,100**	**-**	**-**
Total	**$ 68,023,471**	**$ 8,036,100**	**$ 3,068,178**	**$ 611,416**

	2013			
	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Risk Sharing Bonds
Capital reserve for debt service	$ 54,304,277	$ -	$ 3,068,178	$ 611,416
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	30,259,560	-	-	-
Debt service reserve	-	9,148,800	-	-
Total	$ 84,563,837	$ 9,148,800	$ 3,068,178	$ 611,416

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

Moody's Rating	**2014**	2013
Aaa	**$ 490,230,732**	$ 273,296,382
Aa	**954,712**	294,873,874
Unrated	**10,888,002**	12,992,620
Total	**$ 502,073,446**	$ 581,162,876

Concentration of Credit Risk: The Authority will minimize Concentration Credit Risk by diversifying the investment portfolio and reducing the impact of potential losses from any one type of security or issuer. At June 30, 2014, the Authority held 5% or more of their investments with the following issuers: Federal Home Loan Bank (13.94%), Federal National Mortgage Association (22.60%), and Federal Home Loan Mortgage Corporation (11.10%). At June 30, 2013, the following issuers held 5% or more of the Authority’s investments: Federal Home Loan Bank (14.85%), Federal National Mortgage Association (19.88%), and Federal Home Loan Mortgage Corporation (15.01%).

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Note 4 - Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	2014	2013
Homeownership Mortgage Loans	**$ 572,917,826**	$ 709,481,381
Single Family Mortgage Loans	**234,568,006**	268,727,836
Multiple Purpose Loans	**28,718,365**	32,823,324
Other (General Operating Account)	**79,698,836**	75,457,196
Total	**$ 915,903,033**	$ 1,086,489,737

The above loans are substantially insured by FHA or private mortgage insurance companies, or guaranteed in part by the VA or USDA Rural Development. Losses on mortgage loans in the Homeownership Mortgage Bond Program are also secured by an insurance reserve fund established under the bond resolution. The mortgage loans receivable are reflected net of an allowance for loan loss of $2,499,603 and $1,758,466 as of June 30, 2014 and 2013, respectively.

Included in the mortgage loan receivable balance is real estate owned by the Authority from foreclosures. The amount of real estate owned at June 30, 2014 and 2013 is $2,913,758 and $1,927,555, respectively.

Note 5 - Bonds Payable:

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

			2014			2013
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
2003 Series C-1	2032	0.13%	-	$ 26,500	**$ 26,500**	$ 26,500
2003 Series C-2	2032	0.13%	-	26,400	**26,400**	26,400
2004 Series A	2014-2015	4.4%-4.5%	-	-	**-**	3,415
2004 Series B	2017-2027	4.95%-5.0%	-	-	**-**	1,620
2004 Series C	2034	.09%(2)	-	-	**-**	34,000
2004 Series D	2032	.06%(2)	-	11,890	**11,890**	11,890
2004 Series E	2014-2017	3.95%-4.25%	-	-	**-**	10,140
2004 Series F	2017-2028	4.60%	-	-	**-**	5,970
2004 Series G	2034	.11%(2)	-	-	**-**	33,000
2005 Series A	2015-2018	4.0% - 4.2%	5,295	-	**5,295**	9,350
2005 Series B	2023-2027	5.25%	-	-	**-**	1,040
2005 Series C	2035	0.07% (2)	-	41,000	**41,000**	41,000
2005 Series D	2031	.06%(2)	-	6,925	**6,925**	6,925
2005 Series E	2015-2018	3.9% - 4.1%	9,725	-	**9,725**	12,680
2005 Series F	2027	4.60%	-	14,760	**14,760**	19,465
2005 Series G	2035	0.08% (2)	-	25,000	**25,000**	25,000
2005 Series K	2025	4.90%	-	8,890	**8,890**	19,780
2006 Series A	2015-2019	4.25% - 4.5%	14,065	-	**14,065**	16,765
2006 Series B	2026-2031	4.9% - 6%	-	13,795	**13,795**	23,295
2006 Series C	2037	.08%(2)	-	45,000	**45,000**	45,000
2006 Series D	2015-2019	3.8% - 4.0%	12,635	-	**12,635**	14,885
2006 Series E	2026-2036	4.5% - 5.75%	-	12,065	**12,065**	44,300
2007 Series A	2014-2019	3.9% - 4.2%	10,310	-	**10,310**	14,105
2007 Series B	2022-2036	4.7% - 5.5%	-	10,160	**10,160**	36,085
2007 Series D	2015-2018	4.15% - 4.35%	8,955	-	**8,955**	10,985
2007 Series E	2036	5.75%	-	3,430	**3,430**	11,135
2007 Series G	2015-2018	3.8% - 4.2%	7,570	-	**7,570**	7,970
2007 Series H	2022-2037	4.95% - 5.5%	-	21,115	**21,115**	34,880
2007 Series I	2038	.08%(2)	-	34,000	**34,000**	34,000

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Bond Issue	Maturity Date	Interest Rate	2014 Serial	2014 Term (1)	2014 Total Outstanding	2013 Total Outstanding
2008 Series A	2016-2018	4.0% - 4.375%	7,255	-	**7,255**	7,255
2008 Series B	2023-2028	5.45% - 5.75%	-	2,195	**2,195**	4,975
2008 Series C	2039	.09%(2)	-	50,000	**50,000**	50,000
2008 Series D	2015-2019	3.9% - 4.45%	10,050	-	**10,050**	11,790
2008 Series E	2023-2038	5.375% - 6.0%	-	9,445	**9,445**	14,195
2008 Series F	2039	.08%(2)	-	34,000	**34,000**	34,000
2008 Series G	2023-2038	5.85% - 6.25%	-	2,540	**2,540**	2,540
2009 Series A	2039	.06%(2)	-	42,285	**42,285**	44,775
2009 Series B	2015-2027	2.8% - 4.5%	22,860	4,375	**27,235**	37,870
2009 Series C	2039	.07%(2)	-	22,000	**22,000**	22,000
2012 Series A	2015-2031	1.45%-4.5%	7,630	12,080	**19,710**	25,630
2012 Series B	2018-2026	1.85%-3.25%	10,745	8,235	**18,980**	18,980
2012 Series C	2033	3.75%	-	3,515	**3,515**	6,565
2012 Series D	2015-2029	0.90%-4.0%	18,820	14,465	**33,285**	39,300
2012 Series E	2025	2.80%	-	9,355	**9,355**	9,355
2012 Series F	2033-2042	3.375%-3.7%	-	20,155	**20,155**	22,960
2013 Series A	2015-2030	.75%-3.0%	5,210	7,790	**13,000**	15,860
2013 Series B	2019-2025	1.65%-3.0%	7,940	-	**7,940**	7,940
2013 Series C	2033-2043	3.55%-3.8%	-	7,905	**7,905**	10,460
2013 Series D	2043	3.25%-4.0%	-	63,682	**63,682**	66,673
2013 Series E	2015-2044	.50%-4.0%	6,935	12,875	**19,810**	-
2013 Series F	2020-2044	2.45%-4.4%	7,845	18,965	**26,810**	-
2014 Series A	2014-2044	.20%-4.0%	9,095	15,650	**24,745**	-
2014 Series B	2020-2024	2.2%-3.25%	7,750	-	**7,750**	-
2014 Series C	2024-2030	3.25%-3.9%	3,450	10,550	**14,000**	-
Plus unamortized premium					**9,204**	9,811
Total Homeownership Mortgage Program Bonds					**$ 876,336**	$ 1,044,514

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

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

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

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

Bond Issue	Maturity Date	Interest Rate	2014 Serial	2014 Term (1)	2014 Total Outstanding	2013 Total Outstanding
2010-1/2009-1A	2028-2041	3.425% - 4.24%	$ -	$ 66,960	**$ 66,960**	$ 82,135
2010-2/2009 1-B	2015-2041	2.0%-4.5%	12,100	40,175	**52,275**	62,370
2011-1/20091-C	2015-2041	1.8%-5.0%	11,125	47,875	**59,000**	68,250
2011-2/20091-D	2014-2041	1.20%-4.25%	21,325	61,835	**83,160**	92,205
Plus unamortized premium					**1,408**	1,705
Total Single Family Mortgage Bonds					**$ 262,803**	$ 306,665

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

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

			2014			2013
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
2008 Series A	2048	3.552%	-	6,980	**6,980**	7,070
2009 Series A	2048	0.14% (2)	-	6,445	**6,445**	6,500
2013 Series A	2014-2028	.60%-3.65%	13,075	2,485	**15,560**	17,490
Total Multiple Purpose Bonds					**$ 28,985**	$ 31,060

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

			2014			2013
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
Series 2001	2031	0.08%	$ -	$ 6,495	**$ 6,495**	$ 6,495
Series 2001	2034	0.10%	-	13,000	**13,000**	13,000
Series 2002 A	2023-2033	5.25%-5.35%	-	2,105	**2,105**	2,160
Series 2004 A	2033	6.15%	-	2,718	**2,718**	2,788
Country Meadow	2044	.06%(2)	-	4,920	**4,920**	4,920
Total Multifamily Housing Revenue Bonds					**$ 29,238**	$ 29,363

(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):

			2014		2013
Bond Issue	**Maturity Date**	**Interest Rate**	**Term**	**Total Outstanding**	Total Outstanding
1996 Series B	2014	3.75%	-	**$ -**	$ 1,215
Series 1999-1	2014-2015	4.0%	-	**-**	1,114
Series 1999-2	2015	6.0%	1,124	**1,124**	1,176
Series 1999-3	2014-2015	6.0%	-	**-**	1,311
Total Multifamily Mortgage Pass-Through Bonds				**$ 1,124**	$ 4,816

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

			2014			2013
Bond Issue	**Maturity Date**	**Interest Rate**	**Serial**	**Term (1)**	**Total Outstanding**	Total Outstanding
Series 1999	2029-2040	5.75% - 5.8%	$ -	$ 2,815	**$ 2,815**	$ 2,860
Series 2000	2032	5.85%	-	2,705	**2,705**	2,780
Series 2001	2042-2043	5.35%	-	7,060	**7,060**	7,145
Total Multifamily Risk Sharing Bonds					**$ 12,580**	$ 12,785
Total Bonds Outstanding					**$ 1,211,066**	$ 1,429,203

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

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Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2014 and 2013:

	Balance July 1, 2013	**Additions**	**Deductions**	**Balance June 30, 2014**	**Amounts Due Within One Year**
Homeownership Mortgage Program Bonds	**$ 1,034,702,566**	**$ 95,845,000**	**$ 263,415,449**	**$ 867,132,117**	**$ 22,685,000**
Single Family Mortgage Bonds	**304,960,000**	**-**	**43,565,000**	**261,395,000**	**2,985,000**
Multiple Purpose Bonds	**31,060,000**	**-**	**2,075,000**	**28,985,000**	**2,095,000**
Multifamily Housing Revenue Bonds	**29,363,205**	**1,071**	**126,799**	**29,237,476**	**135,145**
Multifamily Mortgage Pass-Through Bonds	**4,816,227**	**-**	**3,692,133**	**1,124,094**	**1,124,094**
Multifamily Risk Sharing Bonds	**12,785,000**	**-**	**205,000**	**12,580,000**	**215,000**
Unamortized Premium/Discount	**11,516,050**	**2,452,066**	**3,355,756**	**10,612,360**	**-**
	$ 1,429,203,048	**$ 98,298,137**	**$ 316,435,137**	**$ 1,211,066,047**	**$ 29,239,239**

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amounts Due Within One Year
Homeownership Mortgage Program Bonds	$ 1,195,205,000	$ 177,742,566	$ 338,245,000	$ 1,034,702,566	$ 35,720,000
Single Family Mortgage Bonds	338,340,000	-	33,380,000	304,960,000	6,670,000
Multiple Purpose Bonds	37,645,000	17,490,000	24,075,000	31,060,000	2,075,000
Multifamily Housing Revenue Bonds	29,484,776	-	121,571	29,363,205	125,729
Multifamily Mortgage Pass-Through Bonds	9,353,674	-	4,537,447	4,816,227	1,356,360
Multifamily Risk Sharing Bonds	12,975,000	-	190,000	12,785,000	205,000
Unamortized Premium/Discount	11,237,483	4,196,628	3,918,061	11,516,050	-
	$ 1,634,240,933	$ 199,429,194	$ 404,467,079	$ 1,429,203,048	$ 46,152,089

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

Year Ended	**Homeownership Mortgage Program Bonds**		**Single Family Mortgage Bonds**		**Multiple Purpose Bonds**	
June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2015	$ 22,685,000	$ 27,130,667	$ 2,985,000	$ 9,156,478	$ 2,095,000	$ 522,402
2016	35,135,000	26,307,873	6,365,000	9,017,172	2,110,000	503,752
2017	35,460,000	25,094,031	6,535,000	8,865,536	2,135,000	479,847
2018	32,200,000	23,993,951	6,730,000	8,685,338	2,160,000	449,830
2019	29,155,000	22,884,064	6,960,000	8,475,203	2,200,000	413,272
2020-2024	113,475,000	101,308,055	36,675,000	38,699,348	6,295,000	1,429,986
2025-2029	116,980,000	80,910,799	41,015,000	31,504,739	1,875,000	1,097,975
2030-2034	267,930,000	51,747,283	53,770,000	22,366,237	1,765,000	857,903
2035-2039	138,165,000	15,238,708	66,090,000	12,035,440	2,280,000	662,299
2040-2044	74,862,117	2,104,903	34,270,000	1,658,521	2,920,000	419,529
2045-2049	1,085,000	21,580	-	-	3,150,000	122,900
Total	$ 867,132,117	$ 376,741,914	$ 261,395,000	$ 150,464,012	$ 28,985,000	$ 6,959,695

Year Ended	**Multifamily Housing Revenue Bonds**		**Multifamily Mortgage Pass-Through Bonds**		**Multifamily Risk Sharing Bonds**	
June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2015	$ 135,145	$ 297,376	$ 1,124,094	$ 10,465	$ 215,000	$ 697,351
2016	144,838	289,451	-	-	230,000	685,125
2017	149,823	280,998	-	-	240,000	672,195
2018	160,120	272,185	-	-	260,000	658,561
2019	170,748	262,751	-	-	275,000	643,813
2020-2024	1,021,249	1,150,385	-	-	1,645,000	2,966,663
2025-2029	1,355,088	811,491	-	-	2,235,000	2,439,050
2030-2034	8,180,466	342,665	-	-	2,625,000	1,724,321
2035-2039	13,000,000	18,037	-	-	2,475,000	1,045,823
2040-2044	4,920,000	13,530	-	-	2,380,000	316,312
	$ 29,237,476	$ 3,738,870	$ 1,124,094	$ 10,465	$ 12,580,000	$ 11,849,214

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Note 6 - Refunding of Debt:

In November 2012, the Authority issued $76,810,000 of fixed rate Homeownership Mortgage Bonds, 2012 Series D, 2012 Series E and 2012 Series F (the 2012 DEF Bonds). The 2012 Series D and 2012 Series E bonds, totaling $50,415,000, along with premium generated from the bond sale, were used to refund approximately $51,905,000 of Homeownership Mortgage Bonds, 2001 Series F, 2003 Series A, 2003 Series B, 2003 Series D and 2003 Series F (the Refunded Bonds). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par, which decreased total debt service payments by approximately $27.4 million. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2012 DEF Bonds and the Refunded Bonds, net of costs of issuance, negative arbitrage and the 2003 F swap termination fee, will result in an economic gain of approximately $4,400,000. In addition, the refunding generated approximately $18,500,000 of zero participation loans for use in blending with future bond issues.

In April 2013, the Authority issued $17,490,000 of fixed rate Multiple Purpose Bonds, 2013 Series A (the 2013 A Bonds). The 2013 A Bonds were used to refund $17,490,000 of Multiple Purpose Bonds, 2002 Series A and 2002 Series B (the Refunded Bonds). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par, which decreased total debt service payments by approximately $2.0 million. Assuming a mortgage prepayment speed of 0% prepayment speed assupmtions (PSA), the difference between the present value of the cash flow required for debt service of the 2013 A Bonds and the Refunded Bonds, net of costs of issuance and negative arbitrage, will result in an economic gain of approximately $1,900,000.

In May 2013, the Authority issued $34,260,000 of fixed rate Homeownership Mortgage Bonds, 2013 Series A, 2013 Series B and 2013 Series C (the 2013 ABC Bonds). The 2013 Series A and 2013 Series B bonds totaling $23,800,000, along with premium generated from the bond sale, were used to refund approximately $24,300,000 of Homeownership Mortgage Bonds, 2003 Series G and 2003 Series I (the Refunded Bonds). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par, which decreased total debt service payments by approximately $8.5 million. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2012 ABC Bonds and the Refunded Bonds, net of costs of issuance, negative arbitrage and the 2003 I swap termination fee, will result in an economic gain of approximately $2,100,000. In addition, the refunding generated approximately $4,000,000 of zero participation loans for use in blending with future bond issues.

In November 2013, the Authority issued $49,350,000 of fixed rate Homeownership Mortgage Bonds, 2013 Series E and 2013 Series F (the "2013 EF Bonds"). The 2013 Series E bonds, totaling $22,335,000, along with premium generated from the bond sale, were used to refund approximately $23,300,000 of Homeownership Mortgage Bonds, 2004 Series C (the "Refunded Bonds"). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par, which decreased total debt service payments by approximately $3.2 million. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2013 EF Bonds and the Refunded Bonds, net of costs of issuance, negative arbitrage and the 2004 C swap termination fee, will result in an economic gain of approximately $1,455,000.

In May 2014, the Authority issued $46,495,000 of fixed rate Homeownership Mortgage Bonds, 2014 Series A, 2014 Series B and 2014 Series C (the "2014 ABC Bonds"). The 2014 Series A and 2014 Series B bonds, totaling $32,495,000, along with premium generated from the bond sale, were used to refund approximately $33,650,000 of Homeownership Mortgage Bonds, 2004 Series E and 2004 Series G (the "Refunded Bonds"). The purpose of the refunding was to reduce the Authority's borrowing cost on debt that was optionally redeemable at par, which decreased total debt service payments by approximately $10.7 million. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2014 ABC Bonds and the Refunded Bonds, net of costs of issuance and negative arbitrage, will result in an economic gain of approximately $3,860,000.

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Note 7 - Hedging Derivatives:

Interest Rate Swaps

Swap Objectives:

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

Swap Terms:

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2014 and 2013, are contained in the table below. The initial notional amounts of the swaps match the initial principal amounts of the associated debt. Current notional amounts may or may not match the current principal outstanding on the debt, which could result in unhedged variable rate debt or making interest payments on debt no longer outstanding (see amortization risk). The Authority has purchased the right to terminate the outstanding swap balances at par value on dates that are generally ten years after the date of issuance of the related bonds.

Bond Series	Current Notional Amount	Effective/ Termination Date	Fixed Rate	Variable Rate Receivable	Counterparty Credit Rating*	**Fair Value June 30, 2014**	**Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2014**	Fair Value June 30, 2013	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2013
Merrill Lynch Capital Services									
2003 C-1	$ -	6/18/2004 5/1/2013	3.40%	57% of LIBOR plus 0.42%	Baa2	**$ -**	**$ -**	$ -	$ 743,901
2005 D	6,925,000	4/13/2005 5/1/2015	3.29%	57.3% of LIBOR plus 0.40%	Baa2	**(192,686)**	**176,594**	(369,280)	172,214
2007 I	34,000,000	10/16/2007 5/1/2038	4.14%	63.8% of LIBOR plus 0.30%	Baa2	**(3,540,969)**	**484,289**	(4,025,258)	1,216,511
JPMorgan Chase Bank, N.A.									
2004 G	33,000,000	10/20/2004 5/1/2034	3.90%	63.4% of LIBOR plus 0.29%	Aa3	**(584,211)**	**990,516**	(1,574,727)	788,729
2005 C	41,000,000	4/13/2005 5/1/2035	3.93%	63.3% of LIBOR plus 0.30%	Aa3	**(1,438,191)**	**1,087,348**	(2,525,539)	983,568
2008 F	34,000,000	9/4/2008 5/1/2039	3.85%	63.7% of LIBOR plus 0.31%	Aa3	**(3,476,760)**	**208,263**	(3,685,023)	1,419,981
The Bank of New York, Mellon, N.A. (Novated from UBS on 7/22/2010)									
2003 F	-	6/21/2005 5/1/2034	3.76%	63.8% of LIBOR plus 0.29%	Aa1	**-**	**-**	-	538,163
2003 I	28,000,000	6/21/2005 5/1/2034	3.76%	63.8% of LIBOR plus 0.29%	Aa1	**-**	**461,621**	(461,621)	693,665
2004 C	34,000,000	6/21/2005 5/1/2034	3.75%	63.8% of LIBOR plus 0.29%	Aa1	**-**	**1,044,571**	(1,044,571)	779,186
Bank of America, N.A.									
2009 C	22,000,000	11/18/2009 5/1/2039	3.14%	64% of LIBOR plus 0.22%	A2	**(1,398,362)**	**(94,072)**	(1,304,290)	1,159,691
Merrill Lynch Derivative Products, AG									
2005 G	25,000,000	8/31/2005 5/1/2035	3.77%	63.8% of LIBOR plus 0.29%	Aa3	**(1,199,854)**	**412,591**	(1,612,445)	625,101
2006 C	45,000,000	6/14/2006 5/1/2037	4.42%	64% of LIBOR plus 0.29%	Aa3	**(3,444,944)**	**1,222,045**	(4,666,989)	1,321,243
2008 C	38,985,000	4/23/2008 5/1/2039	3.42%	63.7% of LIBOR plus 0.30%	Aa3	**(2,506,910)**	**161,136**	(2,668,046)	1,673,171
MPB 2008 A	6,980,000	8/2/2008 5/1/2048	3.55%	63.8% of LIBOR plus 0.20%	Aa3	**(610,784)**	**35,028**	(645,812)	293,802
	$ 348,890,000					**$ (18,393,671)**		$ (24,583,601)	

**Moody's Investor Service*

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Fair Value:

The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Authority based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations determine the current fair value of the Authority's swap contracts. The fair values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2014 and 2013. A positive fair value represents money due the Authority by the counterparty upon termination of the swap, while a negative fair value represents money payable by the Authority.

Swap Risks:

Credit Risk: The terms of the swaps expose the Authority to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Authority's current credit exposure to the counterparty with which the swaps were executed. The Authority has credit risk exposure with its counterparties when the swap position has a positive value. Several of the swap agreements require that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral thresholds are based on the prevailing ratings, as determined by Moody's and S&P, of each counterparty, in the case of the counterparties, or the hedged bonds, in the case of the Authority. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2014 and 2013, neither the Authority nor any counterparty had been required to post collateral.

Basis Risk: The Authority incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Authority pays the actual variable rate on its bonds, but under the terms of its swaps receives a variable rate based upon the one month taxable London Interbank Offered Rate (LIBOR) rate. Basis risk will vary over time due to inter-market conditions. For the years ended June 30, 2014 and 2013, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 1.42% and 1.58% per annum, respectively, while the weighted average interest rate on the swaps was 1.48% and 1.60% per annum, respectively. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between variable tax exempt rates and the one month taxable LIBOR rate.

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

Amortization Risk: The Authority may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Authority to manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Authority may terminate the swaps at market value at any time. As of June 30, 2014, outstanding debt principal exceeds current swap notional amounts by $4,515,000.

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

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

Swap Payments and Associated Debt: As rates vary, variable-rate bond interest payments and net swap payments will vary. Debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows using rates as of June 30, 2014:

Year Ended	**Variable Rate Bond**		**Interest Rate**	
June 30	**Principal**	**Interest**	**Swap - Net**	**Total**
2015	$ 95,000	$ 248,322	$ 9,897,174	$ 10,240,496
2016	100,000	248,185	9,670,077	10,018,262
2017	100,000	248,045	9,608,332	9,956,377
2018	105,000	247,905	9,590,835	9,943,740
2019	110,000	247,755	9,587,338	9,945,093
2020-2024	640,000	1,236,249	47,878,056	49,754,305
2025-2029	27,010,000	1,215,717	47,100,222	75,325,939
2030-2034	153,765,000	865,493	36,088,179	190,718,672
2035-2039	106,590,000	231,224	8,506,537	115,327,761
2040-2044	1,470,000	18,158	421,912	1,910,070
2045-2049	1,420,000	6,482	150,613	1,577,095
	$ 291,405,000	$ 4,813,535	$ 188,499,275	$ 484,717,810

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

Bond Series	**Debt Maturity Date**	**Swap Termination Date**
2005 D	November 1, 2031	May 1, 2015

Mortgage-Backed Security (MBS) Forward Contracts

The Authority has entered into forward contracts to hedge the interest rate risk of delivering MBS securities guaranteed by Ginnie Mae and Fannie Mae in the future, before the securities are ready for delivery (referred to as "to-be-announced" or TBA Mortgage-Backed Securities). These securities represent pools of qualified mortgage loans originated by Authority approved lenders. The forward contracts offset the financial impact to the Authority of changes in interest rates between the time of loan reservations made to originating mortgage lenders and the securitization and sale of such loans as Ginnie Mae or Fannie Mae securities. The forward contracts are considered derivative instruments and the fair values were obtained from an external pricing specialist which used acceptable methods and assumptions in accordance with GASB requirements, subject to review and approval by the Authority. A positive fair value represents money due the Authority by the counterparty, while a negative fair value represents money payable by the Authority.

(continued on next page)

Outstanding forward sales contracts as of June 30, 2014 are as follows:

Forward Contracts to sell TBA Mortgage-Backed Securities		Notional Amount June 30, 2014	Trade Date	Delivery Date	Coupon Rate		Fair Values June 30, 2014	Moody's Credit Rating
Mizuho								
FNMA		454,450	6/9/2014	7/14/2014	4.50%		(2,769)	Aaa
GNMA II	$	700,000	5/7/2014	7/21/2014	3.50%	$	(8,641)	Not rated
Bank of New York Mellon								
FNMA		500,000	5/8/2014	7/14/2014	3.50%		(5,156)	Aaa
FNMA		21,600	6/9/2014	7/14/2014	3.50%		(181)	Aaa
FNMA		1,144,600	6/9/2014	7/14/2014	4.00%		(9,121)	Aaa
FNMA		500,000	4/16/2014	7/14/2014	4.00%		(11,563)	Aaa
FNMA		500,000	5/7/2014	7/14/2014	4.00%		(6,797)	Aaa
FNMA		500,000	4/25/2014	7/14/2014	4.50%		(8,672)	Aaa
GNMA II		600,000	4/24/2014	7/21/2014	3.50%		(13,875)	Not rated
GNMA II		600,000	5/12/2014	7/21/2014	3.50%		(9,656)	Not rated
GNMA II		2,000,000	6/13/2014	7/21/2014	3.50%		(19,688)	Not rated
GNMA II		500,000	5/2/2014	7/21/2014	4.00%		(8,203)	Not rated
GNMA II		500,000	5/8/2014	7/21/2014	4.00%		(6,016)	Not rated
GNMA II		500,000	5/13/2014	7/21/2014	4.00%		(6,602)	Not rated
GNMA II		3,429,000	6/13/2014	7/21/2014	4.00%		(29,468)	Not rated
FNMA		500,000	5/21/2014	8/12/2014	3.50%		(3,828)	Aaa
FNMA		500,000	5/21/2014	8/12/2014	4.00%		(4,531)	Aaa
GNMA II		500,000	5/27/2014	8/21/2014	3.50%		(3,594)	Not rated
GNMA II		500,000	5/29/2014	8/21/2014	3.50%		(195)	Not rated
Piper Jaffray								
GNMA II		500,000	4/25/2014	7/21/2014	3.50%		(10,078)	Not rated
GNMA II		759,500	6/13/2014	7/21/2014	3.50%		(7,002)	Not rated
GNMA II		500,000	4/25/2014	7/21/2014	4.00%		(10,000)	Not rated
GNMA II		600,000	5/15/2014	7/21/2014	4.00%		(4,875)	Not rated
Simmons First								
GNMA II		700,000	5/15/2014	7/21/2014	3.50%		(5,004)	Not rated
GNMA II		600,000	4/23/2014	7/21/2014	4.00%		(13,500)	Not rated
GNMA II		600,000	5/7/2014	7/21/2014	4.00%		(7,570)	Not rated
	$	18,709,150				$	(216,585)	

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Outstanding forward sales contracts as of June 30, 2013 are as follows:

Forward Contracts to sell TBA Mortgage-Backed Securities	Notional Amount June 30, 2013	Trade Date	Delivery Date	Coupon Rate	Fair Values June 30, 2013	Moody's Credit Rating
Bank of America Merrill Lynch						
GNMA II	$ 551,700	6/17/2013	8/20/2013	3.00%	$ 16,982	Not rated
GNMA II	1,000,000	6/17/2013	8/20/2013	3.00%	30,781	Not rated
GNMA II	370,000	6/17/2013	8/20/2013	3.50%	8,094	Not rated
Bank of New York Mellon						
FNMA	1,000,000	5/7/2013	7/15/2013	3.00%	57,344	Aa1
FNMA	245,000	6/7/2013	7/15/2013	3.00%	6,048	Aa1
GNMA II	1,000,000	4/24/2013	7/22/2013	3.00%	68,594	Aa1
GNMA II	1,000,000	5/15/2013	7/22/2013	3.50%	37,656	Aa1
GNMA II	500,000	5/24/2013	8/20/2013	3.50%	14,844	Aa1
GNMA II	400,000	6/12/2013	8/20/2013	3.50%	6,125	Aa1
GNMA II	300,000	6/12/2013	8/20/2013	4.00%	3,328	Aa1
GNMA II	626,650	6/17/2013	8/20/2013	3.50%	12,729	Aa1
FNMA	500,000	6/28/2013	9/12/2013	4.50%	-	Aa1
Simmons First						
GNMA II	400,000	6/7/2013	8/20/2013	3.50%	6,438	Not rated
GNMA II	1,800,000	6/28/2013	9/19/2013	4.00%	843	Not rated
GNMA II	800,000	6/28/2013	9/19/2013	4.50%	(500)	Not rated
	$ 10,493,350				$ 269,306	

Note 8 - Net Position:

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 position 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:

	2014	2013
Bond and notes reserve	**$ 2,893,780**	$ 3,426,806
Program operations reserve	**4,631,898**	4,944,029
Total	**$ 7,525,678**	$ 8,370,835

(continued on next page)

Note 9 - Commitments:

As of June 30, 2014, the Authority had the following Homeownership Mortgage Program commitments:

- Commitments to fund the Homeownership Mortgage Program aggregating $28,858,934.

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, 2014 and 2013, for the Homeownership Mortgage Program Bonds, Single Family Mortgage Bonds and the Multiple Purpose Bonds follows:

	2014			2013		
	Homeownership Mortgage Bonds	**Single Family Mortgage Bonds**	**Multiple Purpose Bonds**	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds
Condensed Statement of Net Position						
Assets						
Interfund receivables (payables)	**$ 10,223,153**	**$ 1,888,206**	**$ (85,937)**	$ 3,387,232	$ 8,828,798	$ (204,579)
Current assets	**170,163,660**	**30,474,664**	**7,319,223**	219,874,662	24,047,593	16,254,827
Noncurrent assets	**1,037,748,943**	**232,305,626**	**81,933,802**	1,152,429,255	276,045,017	73,043,323
Total Assets	**1,218,135,756**	**264,668,496**	**89,167,088**	1,375,691,149	308,921,408	89,093,571
Deferred Outflow of Resources	**18,750,882**	**-**	**1,149,405**	25,084,926	-	1,275,052
Total Assets and Deferred Outflow of Resources	**$ 1,236,886,638**	**$ 264,668,496**	**$ 90,316,493**	$ 1,400,776,075	$ 308,921,408	$ 90,368,623
Liabilities						
Current liabilities	**$ 27,447,439**	**$ 4,544,348**	**$ 2,182,722**	$ 41,941,152	$ 8,471,471	$ 2,145,080
Noncurrent liabilities	**870,930,946**	**259,818,069**	**27,500,784**	1,031,948,581	299,995,148	29,630,812
Total Liabilities	**898,378,385**	**264,362,417**	**29,683,506**	1,073,889,733	308,466,619	31,775,892
Deferred Inflow of Resources	**-**	**-**	**-**	269,306	-	-
Total Liabilities and Deferred Inflow of Resources	**898,378,385**	**264,362,417**	**29,683,506**	1,074,159,039	308,466,619	31,775,892
Net Position						
Net investment in capital assets	**-**	**-**	**(1,299,391)**	-	-	(1,146,244)
Restricted by bond indentures	**338,508,253**	**306,079**	**61,932,378**	326,617,036	454,789	59,738,975
Total Liabilities, Deferred Inflows, and Net Position	**$ 1,236,886,638**	**$ 264,668,496**	**$ 90,316,493**	$ 1,400,776,075	$ 308,921,408	$ 90,368,623
Condensed Statement of Revenues, Expenses, and Changes in Net Position						
Operating revenues	**$ 52,733,207**	**$ 11,453,367**	**$ 3,186,444**	$ 35,440,914	$ 12,374,072	$ 2,084,764
Operating expenses	**38,196,812**	**10,602,076**	**1,146,188**	44,101,448	12,125,270	2,060,764
Operating income	**14,536,395**	**851,291**	**2,040,256**	(8,660,534)	248,802	24,000
Transfers in (out)	**(2,645,178)**	**(1,000,000)**	**-**	(2,011,480)	(500,000)	-
Change in net position	**11,891,217**	**(148,709)**	**2,040,256**	(10,672,014)	(251,198)	24,000
Beginning net position	**326,617,036**	**454,788**	**58,592,731**	337,289,050	705,987	58,568,731
Ending net position	**$ 338,508,253**	**$ 306,079**	**$ 60,632,987**	$ 326,617,036	$ 454,789	$ 58,592,731
Condensed Statement of Cash Flows						
Net cash provided (used) by:						
Operating activities	**$ 135,409,106**	**$ 51,042,768**	**$ 5,794,171**	$ 235,621,217	$ 26,777,667	$ 1,263,563
Noncapital financing activities	**(207,410,083)**	**(54,522,394)**	**(2,662,483)**	(208,873,753)	(45,188,637)	(8,098,852)
Capital and related financing activities	**-**	**-**	**(64,723)**	-	-	(65,283)
Investing activities	**30,332,799**	**360,907**	**(3,599,465)**	18,097,000	(11,783,721)	6,417,888
Net change	**(41,668,178)**	**(3,118,719)**	**(532,500)**	44,844,464	(30,194,691)	(482,684)
Beginning cash and cash equivalents	**149,646,996**	**8,224,324**	**2,932,169**	104,802,532	38,419,015	3,414,853
Ending cash and cash equivalents	**$ 107,978,818**	**$ 5,105,605**	**$ 2,399,669**	$ 149,646,996	$ 8,224,324	$ 2,932,169

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Note 11 - Pension Plan:

Plan Description:

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

Plan Administration:

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

Funding Policy:

Plan members are required to contribute 6% of their annual covered salary and the Authority is required to match an additional 6%. These rates are based on actuarial determinations to provide a contribution requirement equal to the contributions made. The contribution requirements are established and may be amended by the SDRS Board of Trustees. The Authority's contributions to SDRS were $188,783, $165,143, and $171,138 for the years ended June 30, 2014, 2013, and 2012, respectively.

Note 12 - Contingencies:

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

Note 13 - Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2014 and 2013, the Authority managed its risks as follows:

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

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Note 14 - Capital Assets:

	Beginning Balance July 1, 2013	Increase	Decrease	Ending Balance June 30, 2014
Capital assets not depreciated				
Land	$ 220,409	$ -	$ -	$ 220,409
Total capital assets not depreciated	220,409	-	-	220,409
Capital assets depreciated				
Buildings	4,949,532	-	-	4,949,532
Land improvements	1,210,115	-	-	1,210,115
Furniture and equipment	4,007,275	103,259	60,254	4,050,280
Total capital assets depreciated	10,166,922	103,259	60,254	10,209,927
Total capital assets	10,387,331	103,259	60,254	10,430,336
Less accumulated depreciation for:				
Buildings	585,438	125,733	-	711,171
Land improvements	544,740	57,034	-	601,774
Furniture and equipment	2,625,650	291,340	59,813	2,857,177
Total accumulated depreciation	3,755,828	474,107	59,813	4,170,122
Capital assets, net	$ 6,631,503	$ (370,848)	$ 441	$ 6,260,214

	Beginning Balance July 1, 2012	Increase	Decrease	Ending Balance June 30, 2013
Capital assets not depreciated				
Land	$ 220,409	$ -	$ -	$ 220,409
Total capital assets not depreciated	220,409	-	-	220,409
Capital assets depreciated				
Buildings	4,949,532	-	-	4,949,532
Land improvements	1,210,115	-	-	1,210,115
Furniture and equipment	3,556,728	531,733	81,186	4,007,275
Total capital assets depreciated	9,716,375	531,733	81,186	10,166,922
Total capital assets	9,936,784	531,733	81,186	10,387,331
Less accumulated depreciation for:				
Buildings	459,705	125,733	-	585,438
Land improvements	487,705	57,035	-	544,740
Furniture and equipment	2,479,982	226,854	81,186	2,625,650
Total accumulated depreciation	3,427,392	409,622	81,186	3,755,828
Capital assets, net	$ 6,509,392	$ 122,111	$ -	$ 6,631,503

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Note 15 - Accounts Payable and Other Accruals:

Payables at June 30, 2014 and 2013 were as follows:

		2014		2013
Accounts Payable				
Contractual	**$**	**36,006**	$	30,221
Travel/moving costs		**9,451**		12,869
Office		**8,047**		13,898
Marketing		**22,178**		10,398
Maintenance		**10,158**		4,400
Capital assets		**-**		105,316
Deferred financing costs		**-**		30,249
General		**3,484**		25,933
Prepaid sales		**255,208**		72,378
Excise/Unemployment tax		**9,746**		11,771
Materials/tools		**191,299**		68,023
		545,577		385,456
Other Liabilities				
Arbitrage rebate		**(719,934)**		(782,675)
Amount held for SD Homebuilders Association		**950,768**		950,768
Accrued vacation		**520,344**		517,686
Accrued salaries		**127,917**		127,063
Employee withholdings		**460**		-
EMAP payable		**7,135**		13,776
Servicing fee		**173,909**		206,771
Estes Park		**98,796**		98,796
Total accounts payable and other liabilities		**1,704,972**		1,517,641
Current liabilities		**1,474,138**		1,349,548
Noncurrent liabilities	**$**	**230,834**	$	168,093

Note 16 - Adoption of New Accounting Standards

During fiscal year ended June 30, 2014, the Authority adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The implementation of GASB 65 required the reclassification of the deferred loss on refunding from liabilities to deferred outflows and required that bond issuance costs be expensed as incurred instead of being amortized over the life of the debt.

The Authority restated its previously issued financial statements to appropriately reflect the provisions of GASB Statement No. 65 on the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year ended June 30, 2013.

(continued on next page)

The following is a summary of the effects of the restatement in the Authority's June 30, 2013 Statement of Net Position:

	As Previously Reported	Adjustment	As Restated
As of June 30, 2013			
Deferred financing costs, net (noncurrent)	$ 10,611,081	$ (10,611,081)	$ -
Total noncurrent assets	1,646,870,992	(10,611,081)	1,636,259,911
Total assets	1,921,606,758	(10,611,081)	1,910,995,677
Deferred loss on refunding	-	1,776,377	1,776,377
Deferred outflows of resources	24,583,601	1,776,377	26,359,978
Total assets and deferred outflows of resources	1,946,190,359	(8,834,704)	1,937,355,655
Bonds payable (noncurrent)	1,381,274,582	1,776,377	1,383,050,959
Total noncurrent liabilities	1,406,026,276	1,776,377	1,407,802,653
Total liabilities	1,476,269,907	1,776,377	1,478,046,284
Net position restricted by bond indentures	397,760,835	(10,611,081)	387,149,754
Total net position	469,651,146	(10,611,081)	459,040,065
Total liabilities, deferred inflow of resources, and net position	1,946,190,359	(8,834,704)	1,937,355,655

The following is a summary of the effects of the restatement in the Authority's June 30, 2013 Statement of Revenues, Expenses, and Changes in Net Position:

	As Previously Reported	Adjustment	As Restated
Year ended June 30, 2013			
Amortization of deferred financing costs	$ 2,860,153	$ (2,860,153)	$ -
Bond financing costs	-	1,460,528	1,460,528
Total operating expenses	97,083,598	(1,399,625)	95,683,973
Change in net position	(6,662,673)	1,399,625	(5,263,048)
Net position, beginning of fiscal year	476,313,819	(12,010,706)	464,303,113
Net position, end of fiscal year	469,651,146	(10,611,081)	459,040,065

The following is a summary of the effects of the restatement in the Authority's June 30, 2013 Statement of Cash Flows:

	As Previously Reported	Adjustment	As Restated
Year ended June 30, 2013			
Operating income (loss)	$ (6,662,673)	$ 1,399,625	$ (5,263,048)
Bond financing costs	-	1,460,528	1,460,528
Amortization of deferred financing costs	2,860,153	(2,860,153)	-

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South Dakota Housing Development Authority

Supplementary Information

June 30, 2014

Assets	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Mortgage Pass-Through Bonds	Multifamily Risk Sharing Bonds	Combined Total
Current Assets								
Cash and cash equivalents	$ 5,402,697	$ 107,978,818	$ 5,105,605	$ 2,399,669	$ 1,040,987	$ -	$ 381,435	**$ 122,309,211**
Investment securities - other	1,630,302	24,434,604	12,179,821	1,831,734	100,386	-	-	**40,176,847**
Mortgage loans receivable, net	2,894,768	32,226,872	12,021,901	2,527,624	-	-	-	**49,671,165**
Guaranteed mortgage securities	-	-	-	-	397,692	1,124,094	210,346	**1,732,132**
Interest receivable	187,689	5,523,366	1,167,337	560,196	22,305	-	71,394	**7,532,287**
Other receivables	2,785,592	-	-	-	-	-	-	**2,785,592**
Other assets	2,443,922	-	-	-	-	-	-	**2,443,922**
Total Current Assets	15,344,970	170,163,660	30,474,664	7,319,223	1,561,370	1,124,094	663,175	**226,651,156**
Noncurrent Assets								
Investment securities - other	11,656,609	367,400,680	9,759,521	50,597,452	1,573,354	-	634,140	**441,621,756**
Investments - program mortgage-backed securities	-	128,780,293	-	-	-	-	-	**128,780,293**
Mortgage loans receivable, net	76,804,068	540,690,954	222,546,105	26,190,741	-	-	-	**866,231,868**
Guaranteed mortgage securities	-	-	-	-	26,777,411	-	11,901,590	**38,679,001**
Other receivables	5,000,000	877,016	-	-	-	-	-	**5,877,016**
Furniture and equipment, net	730,575	-	-	462,527	-	-	-	**1,193,102**
Building, net	147,985	-	-	4,090,376	-	-	-	**4,238,361**
Land Improvement, net	15,636	-	-	592,706	-	-	-	**608,342**
Land	220,409	-	-	-	-	-	-	**220,409**
Due from (to) other funds	(12,011,422)	10,223,153	1,888,206	(85,937)	(9,000)	-	(5,000)	**-**
Total Noncurrent Assets	82,563,860	1,047,972,096	234,193,832	81,847,865	28,341,765	-	12,530,730	**1,487,450,148**
Total Assets	97,908,830	1,218,135,756	264,668,496	89,167,088	29,903,135	1,124,094	13,193,905	**1,714,101,304**
Deferred Outflows of Resources								
Deferred loss on refunding	-	751,410	-	538,621	-	-	-	**1,290,031**
Deferred forward contract outflow	-	216,585	-	-	-	-	-	**216,585**
Deferred swap outflow	-	17,782,887	-	610,784	-	-	-	**18,393,671**
Total Deferred Outflows of Resources	-	18,750,882	-	1,149,405	-	-	-	**19,900,287**
Total Assets and Deferred Outflows of Resources	$ 97,908,830	$ 1,236,886,638	$ 264,668,496	$ 90,316,493	$ 29,903,135	$ 1,124,094	$ 13,193,905	**$ 1,734,001,591**

(continued on next page)

	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Mortgage Pass-Through Bonds	Multifamily Risk Sharing Bonds	Combined Total
Liabilities								
Current Liabilities								
Bonds payable	$ -	$ 22,685,000	$ 2,985,000	$ 2,095,000	$ 135,145	$ 1,124,094	$ 215,000	**$ 29,239,239**
Accrued interest payable	-	4,633,994	1,506,749	87,722	117,257	-	210,233	**6,555,955**
Accounts payable and other liabilities	1,194,298	128,445	52,599	-	-	-	98,796	**1,474,138**
Multifamily escrows and reserves	10,962,012	-	-	-	254,858	-	132,680	**11,349,550**
Total Current Liabilities	12,156,310	27,447,439	4,544,348	2,182,722	507,260	1,124,094	656,709	**48,618,882**
Noncurrent Liabilities								
Bonds payable	-	853,651,408	259,818,069	26,890,000	29,102,331	-	12,365,000	**1,181,826,808**
Accounts payable and other liabilities	950,768	(719,934)	-	-	-	-	-	**230,834**
Hedging derivatives	-	17,999,472	-	610,784	-	-	-	**18,610,256**
Total Noncurrent Liabilities	950,768	870,930,946	259,818,069	27,500,784	29,102,331	-	12,365,000	**1,200,667,898**
Total Liabilities	13,107,078	898,378,385	264,362,417	29,683,506	29,609,591	1,124,094	13,021,709	**1,249,286,780**
Deferred Inflow of Resources								
Deferred forward contract inflow	-	-	-	-	-	-	-	**-**
Total Liabilities and Deferred Inflow of Resources	13,107,078	898,378,385	264,362,417	29,683,506	29,609,591	1,124,094	13,021,709	**1,249,286,780**
Net Position								
Net investment in capital assets	1,114,605	-	-	(1,299,391)	-	-	-	**(184,786)**
Restricted by statue	15,967,989	-	-	-	-	-	-	**15,967,989**
Restricted by bond indentures	-	338,508,253	306,079	61,932,378	293,544	-	172,196	**401,212,450**
Restricted by HOME and NSP Program	67,719,158	-	-	-	-	-	-	**67,719,158**
Total Net Position	84,801,752	338,508,253	306,079	60,632,987	293,544	-	172,196	**484,714,811**
Total Liabilities, Deferred Inflow of Resources, and Net Position	$ 97,908,830	$ 1,236,886,638	$ 264,668,496	$ 90,316,493	$ 29,903,135	$ 1,124,094	$ 13,193,905	**$ 1,734,001,591**

Supplemental Schedule of Operations and Changes in Net Position — *As of June 30, 2014*

	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Mortgage Pass-Through Bonds	Multifamily Risk Sharing Bonds	Combined Total
Operating Revenues								
Interest income on mortgage loans and guaranteed mortgage securities	$ 307,612	$ 32,715,373	$ 11,053,831	$ 1,902,647	$ 387,615	$ 69,226	$ 674,951	**$ 47,111,255**
Earnings on investments and program mortgage-backed securities	233,682	16,666,479	360,819	1,205,913	58,583	(3,216)	33,959	**18,556,219**
Net increase/(decrease) in fair value of investments	(237,783)	3,351,355	38,410	62,190	5,770	-	-	**3,219,942**
HUD contributions	30,653,728	-	-	-	-	-	-	**30,653,728**
Fee, grant and other income	10,587,496	-	307	15,694	-	-	-	**10,603,497**
Total Operating Revenues	41,544,735	52,733,207	11,453,367	3,186,444	451,968	66,010	708,910	**110,144,641**
Operating Expenses								
Interest	-	31,375,308	9,403,273	710,467	325,157	66,015	704,994	**42,585,214**
Housing assistance payments	23,433,261	-	-	-	-	-	-	**23,433,261**
Servicer fees	-	1,714,208	797,952	-	-	-	-	**2,512,160**
Arbitrage rebate expense	-	62,741	-	-	-	-	-	**62,741**
General and administrative	5,134,457	1,460,648	38,735	281,749	3,936	-	-	**6,919,525**
Bond financing costs	-	1,726,907	25,000	50,000	-	-	-	**1,801,907**
Other housing programs	4,404,709	26,250	-	1,351	-	-	-	**4,432,310**
Provision for loan loss	452,290	1,830,750	337,116	102,621	-	-	-	**2,722,777**
Total Operating Expenses	33,424,717	38,196,812	10,602,076	1,146,188	329,093	66,015	704,994	**84,469,895**
Net Income Before Interfund Transfers	8,120,018	14,536,395	851,291	2,040,256	122,875	(5)	3,916	**25,674,746**
Interfund Transfers	3,645,178	(2,645,178)	(1,000,000)	-	-	-	-	**-**
Changes in Net Position	11,765,196	11,891,217	(148,709)	2,040,256	122,875	(5)	3,916	**25,674,746**
Net Position, Beginning of Fiscal Year, as Restated	73,036,556	326,617,036	454,788	58,592,731	170,669	5	168,280	**459,040,065**
Net Position, End of Fiscal Year	$ 84,801,752	$ 338,508,253	$ 306,079	$ 60,632,987	$ 293,544	$ -	$ 172,196	**$ 484,714,811**

TABLE I

Amounts Available To Purchase Qualified Homeownership Mortgage Loans

Series of Bonds	Date of Issuance or Remarketing to Maturity	Mortgage Loan Interest Rate	Total Amount Available to Purchase Mortgage Loans	Amount Committed for Mortgage Loans	Amount Available for Commitment
2012 Series DEF	11/8/2012	0.00%	$ 2,921,611	-	$ 2,921,611
2013 Series ABC	4/4/2013	0.00%	9,532,649	-	9,532,649
2014 Series ABC	4/30/2014	0.00%	14,000,000	-	14,000,000
			$ 26,454,260	$ -	$ 26,454,260

TABLE II

Type of Home Financed with Outstanding Homeownership Mortgage Loans

Type of Home	Number of Homes
Single Family Detached	95.16%
Single Family Townhouse/Condominium	3.08%
Two - Four Unit	0.48%
Modular - Manufactured	1.28%
	100.00%

TABLE III

Outstanding Step Homeownership Mortgage Loans

Years Outstanding	Number	Principal Amount
1	-	$ -
2	-	-
3	3	278,901
4	5	468,357
5 or more	667	40,632,615
	675	$ 41,379,873

TABLE IV

Outstanding Homeownership Mortgage Loans

Interest Rate	Outstanding Number	Outstanding Principal Amount	Interest Rate	Outstanding Number	Outstanding Principal Amount
3.750%	2	$ 289,585	6.875%	5	$ 144,502
4.125%	12	1,116,974	6.890%	20	612,540
4.375%	2	345,187	6.900%	20	909,984
4.500%	120	11,643,753	6.950%	98	4,579,531
4.600%	1	70,135	7.050%	9	316,255
4.625%	4	392,952	7.110%	79	3,157,318
4.750%	1,229	91,341,408	7.125%	3	157,023
4.850%	137	13,377,983	7.250%	77	1,873,852
4.950%	1,234	87,901,027	7.300%	35	1,169,435
5.000%	70	6,544,898	7.360%	7	278,746
5.125%	248	20,336,834	7.400%	24	1,131,726
5.150%	310	23,819,488	7.450%	11	518,084
5.250%	566	46,937,910	7.550%	15	666,482
5.375%	298	24,476,538	7.600%	12	424,933
5.425%	33	2,806,626	7.625%	30	420,597
5.450%	27	2,120,164	7.650%	3	183,428
5.500%	931	73,672,109	7.840%	1	8,121
5.625%	87	7,431,583	7.875%	41	434,987
5.750%	146	11,532,849	7.880%	1	9,590
5.850%	205	17,828,401	7.950%	22	701,066
5.950%	775	43,117,133	8.100%	3	109,474
6.000%	201	12,968,979	8.125%	6	64,152
6.125%	36	3,190,709	8.180%	16	170,216
6.150%	18	1,373,158	9.250%	33	290,291
6.250%	67	3,772,217	8.375%	17	189,538
6.375%	14	1,516,012	8.500%	15	171,953
6.400%	38	1,656,522	8.540%	8	78,109
6.450%	39	1,306,883	8.625%	4	62,862
6.500%	393	15,896,934	8.750%	3	33,012
6.600%	5	130,388	8.850%	19	218,640
6.625%	17	1,436,270	8.900%	3	35,671
6.650%	112	3,052,516	9.000%	2	20,910
6.750%	69	1,685,596	9.100%	1	19,106
6.850%	41	1,813,041	10.680%	1	1,289
			10.875%	8	26,437
				8,139	$ 556,092,622

TABLE V

Type of Mortgage Insurance for Outstanding Homeownership Mortgage Loans

Insurer or Guarantor		Percent of Principal Amount
FHA		33.43%
VA		4.90%
USDA Rural Development		37.20%
Private Mortgage Insurance		
Mortgage Guaranty Insurance Company	10.74%	
Genworth	2.93%	
PMI	0.29%	
United Guaranty Insurance	1.38%	
CMG Mortgage Insurance Company	0.23%	
Total PMI Insured Mortgage Loans		15.57%
Total Insured Mortgage Loans		91.10%
Uninsured		8.90%
Total All Mortgage Loans		100.00%

TABLE VI

Servicers of Outstanding Homeownership Mortgage Loans

Servicer	Principal Amount
Home Federal Bank	$ 378,309,844
Wells Fargo Home Mortgage Corporation	97,854,784
CorTrust Mortgage	35,907,547
First Bank & Trust	30,035,601
Other Servicers	13,984,846
	$ 556,092,622

TABLE VII

Homeownership Mortgage Loan Delinquencies and Foreclosures

	As of 6/30/2013	As of 6/30/2014
31-60 Days (one payment) Delinquent	3.95%	3.34%
61-90 Days (two payments) Delinquent	1.10%	0.74%
91 Days or more (three or more payments) Delinquent	2.47%	1.19%
Total Delinquent	7.52%	5.27%
In Foreclosure	1.36%	0.90%

Table VIII

Valuation of Assets

Value of Principal Assets of Homeownership Program	$1,126,424,976
Amount of Outstanding Homeownership Bonds	$ 867,132,117
Parity Calculation	129.9%
Parity Requirement	102.0%