



South Dakota Housing Development Authority

Financial Report
June 30, 2018 and 2017

South Dakota Housing Development Authority

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June 30, 2018 and 2017

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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, 2018 and 2017, 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 Auditing 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.

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, 2018 and 2017, 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.

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 and the Schedule of Authority's Contributions, Schedule of Authority's Proportionate Share of Net Pension Liability (Asset) and Notes to Required Supplementary Information on pages 41 through 43 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 of 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 44 through 52 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 18, 2018, 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 solely 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 effectiveness of the South Dakota Housing Development Authority's 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Aberdeen, South Dakota
October 18, 2018

Management's Discussion and Analysis **June 30, 2018 and 2017 (Unaudited)**

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, 2018 (FY 2018) and 2017 (FY 2017). 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 and the accompanying Notes to the Financial Statements. The three required statements are the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows.

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. The Authority did not have any nonoperating items.

Management's Discussion and Analysis

June 30, 2018 and 2017 (Unaudited)

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 2018, FY 2017 and FY 2016 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 2018	FY 2017	FY 2016	% Change 2018/2017	% Change 2017/2016
Revenues:					
Interest on mortgages	\$ 20.3	\$ 24.6	\$ 31.5	-17.5%	-21.9%
Investment income	20.1	19.1	18.2	5.2%	4.9%
Decrease in fair market value of investments and program MBS	(24.0)	(23.3)	16.8	3.0%	-238.7%
HUD contributions	31.4	28.3	27.7	11.0%	2.2%
Other income	5.9	7.5	7.0	-21.3%	7.1%
Total revenues	<u>\$ 53.7</u>	<u>\$ 56.2</u>	<u>\$ 101.2</u>	<u>-4.4%</u>	<u>-44.5%</u>
Expenses:					
Interest	\$ 29.0	\$ 28.2	\$ 31.1	2.8%	-9.3%
Servicer fees	1.1	1.3	1.8	-15.4%	-27.8%
General and administrative	6.2	6.9	6.8	-10.1%	1.5%
Housing assistance payments	23.5	23.8	23.7	-1.3%	0.4%
Other	11.9	14.8	11.9	-19.6%	24.4%
Total expenses	<u>71.7</u>	<u>75.0</u>	<u>75.3</u>	<u>-4.4%</u>	<u>-0.4%</u>
Change in net position	<u>\$ (18.0)</u>	<u>\$ (18.8)</u>	<u>\$ 25.9</u>	<u>-4.3%</u>	<u>-172.6%</u>

Management's Discussion and Analysis
June 30, 2018 and 2017 (Unaudited)

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

	FY 2018	FY 2017	FY 2016	% Change 2018/2017	% Change 2017/2016
Assets:					
Cash and equivalents	\$ 216.5	\$ 241.4	\$ 229.6	-10.3%	5.1%
Investments	953.8	792.8	637.7	20.3%	24.3%
Mortgages and securities	466.9	546.1	663.6	-14.5%	-17.7%
Line of credit receivable	42.9	34.4	34.3	24.7%	0.3%
Interest receivable	4.8	4.8	5.2	0.0%	-7.7%
Capital assets	5.3	5.6	5.8	-5.4%	-3.4%
Other	7.9	5.9	9.5	33.9%	-37.9%
Total assets	<u>1,698.1</u>	<u>1,631.0</u>	<u>1,585.7</u>	<u>4.1%</u>	<u>2.9%</u>
Deferred Outflows of Resources					
Deferred loss on refunding	3.4	2.0	0.9	70.0%	122.2%
Deferred forward contract outflow	0.1	-	0.3	100.0%	-100.0%
Deferred swap outflow	0.1	1.1	10.1	-90.9%	-89.1%
Deferred outflow related to pension	1.6	1.4	1.3	14.3%	7.7%
Total assets and deferred outflows	<u>\$ 1,703.3</u>	<u>\$ 1,635.5</u>	<u>\$ 1,598.3</u>	<u>4.1%</u>	<u>2.3%</u>
Liabilities:					
Current bonds payable	\$ 39.9	\$ 39.9	\$ 36.9	0.0%	8.1%
Interest payable	5.0	4.4	4.7	13.6%	-6.4%
Fair value of interest rate swaps	0.1	1.1	10.4	-90.9%	-89.4%
Other	8.1	10.0	12.4	-19.0%	-19.4%
Noncurrent bonds payable	1,154.3	1,070.0	1,004.4	7.9%	6.5%
Total liabilities	<u>1,207.4</u>	<u>1,125.4</u>	<u>1,068.8</u>	<u>7.3%</u>	<u>5.3%</u>
Deferred Inflows of Resources					
Deferred forward contract inflow	-	0.1	-	-100.0%	100.0%
Deferred gain on refunding inflow	1.5	1.3	-	15.4%	100.0%
Deferred swap inflow	3.4	-	1.1	100.0%	-100.0%
Deferred inflow related to pension	0.4	0.1	1.0	300.0%	-90.0%
Total liabilities and deferred inflows	<u>1,212.7</u>	<u>1,126.9</u>	<u>1,070.9</u>	<u>7.6%</u>	<u>5.2%</u>
Net Position:					
Net investment in capital assets	(0.9)	(0.6)	(0.5)	50.0%	20.0%
Restricted by state statute	10.4	12.4	14.0	-16.1%	-11.4%
Restricted for pension benefits	1.2	0.8	0.9	50.0%	-11.1%
Restricted by bond indentures	402.1	423.1	441.4	-5.0%	-4.1%
Restricted by HOME and NSP program	77.8	72.9	71.6	6.7%	1.8%
Total net position	<u>490.6</u>	<u>508.6</u>	<u>527.4</u>	<u>-3.5%</u>	<u>-3.6%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,703.3</u>	<u>\$ 1,635.5</u>	<u>\$ 1,598.3</u>	<u>4.1%</u>	<u>2.3%</u>

(continued on next page)

Management's Discussion and Analysis

June 30, 2018 and 2017 (Unaudited)

Financial Highlights for FY 2018

- Total operating revenues decreased 4.4% to \$53.7 million for FY 2018, from \$56.2 million in FY 2017. The main factor contributing to this decrease was the shrinking whole loan portfolio and the interest earned on these loans.
- Total operating expenses decreased 4.4% to \$71.7 million for FY 2018, from \$75.0 million in FY 2017. The primary components of the decrease were from allowance for loan loss and expenses related to the Governor's House program.
- Net position of the Authority for FY 2018 was \$490.6 million, which represented a decrease of \$18.0 million, or 3.5%, from the FY 2017 net position level.
- Mortgage loans receivable and multifamily guaranteed mortgage securities, net of adjustments for the potential for loan loss was \$466.9 million at the end of FY 2018, which represented a decrease of \$79.2 million, or 14.5% for FY 2018, from the FY 2017 level of \$546.1 million. In the last half of FY 2018, 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.
- Investments were \$953.8 million at the end of FY 2018, which represented an increase of \$161.0 million, or 20.3%, from the FY 2017 total of \$792.8 million. The increase primarily related to additional MBS purchased in place of mortgage loans being issued as indicated in the previous paragraph.
- The line of credit receivable is a credit line in the maximum amount of \$40 million (or other amount as approved) provided to the Authority's master servicer to purchase mortgage loans until they can be securitized and delivered back as securities. The line of credit had a balance of \$42,910,616 at the end of FY 2018 and \$34,360,782 at the end of FY 2017. The excess line of credit balance was approved in FY 2018.
- Interest income on mortgage loans was \$20.3 million for FY 2018, which represented a decrease of \$4.3 million from the \$24.6 million reported in FY 2017. As the loan balance decreased, so did the interest income on loans.
- Investment income was \$20.1 million for FY 2018, which represented an increase of \$1.0 million, or 5.2% in FY 2018, from \$19.1 million in FY 2017 due to the additional MBS's added in FY 2018. The fair market value decreased by \$24.0 million in FY 2018 and decreased by \$23.3 million in FY 2017. The FY 2018 fair market decrease was a result of higher interest rates at fiscal year-end. Ignoring the effects of the net decrease in fair market value of investments, the change in net position would have been \$6.0 million for FY 2018 compared to \$4.5 million for FY 2017.
- Deferred outflows of resources from interest rate swaps at the end of FY 2018 decreased to \$0.1 million from \$1.1 million at the end of FY 2017, or 90.9%. Deferred inflows of resources from interest rate swaps at the end of FY 2018 increased to \$3.4 million from \$0 at the end of FY 2017. Only one swap remains with a negative market valuation, with the remaining at a positive market valuation (see Note 8).

Management's Discussion and Analysis

June 30, 2018 and 2017 (Unaudited)

- Bonds and notes outstanding of the Authority were \$1,194.2 million for FY 2018, which was an increase of \$84.3 million, or 7.6% in FY 2018, from \$1,109.9 million in FY 2017 due to more bonds being issued during the year than bonds being redeemed or maturing.
- Interest expense on bonds and notes outstanding increased \$0.8 million, or 2.8% in FY 2018, from \$28.2 million in FY 2017 as a result of the additional \$84.3 million in current bonds outstanding.
- The Authority performed an operating transfer of \$0.8 million from the Homeownership Mortgage Loan Program and \$0.6 million from the Multiple Purpose Program to the General Operating Account. The Authority normally transfers up to 1% of loan purchases from the Homeownership Mortgage Loan Program. The \$0.6 million transferred from the Multiple Purpose Program was to cover the shortfall in escrows payable in the General Operating.

Financial Highlights for FY 2017

- Total operating revenues decreased 44.5% to \$56.2 million for FY 2017, from \$101.2 million in FY 2016. The main factor contributing to this decrease was the fair market loss recognized on investments.
- Total operating expenses decreased 0.4% to \$75.0 million for FY 2017, from \$75.3 million in FY 2016. The primary component of the decrease was from shrinking servicer fee payments due to the shrinking homeownership loan portfolio.
- Net position of the Authority for FY 2017 was \$508.6 million, which represented a decrease of \$18.8 million, or 3.6%, from the FY 2016 net position level.
- Mortgage loans receivable, net of adjustments for the potential for loan loss was \$546.1 million for FY 2017, which represented a decrease of \$117.5 million, or 17.7% for FY 2017, from the FY 2016 level of \$663.6 million. In the last 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.
- The line of credit receivable is a credit line in the maximum amount of \$40 million provided to the Authority's master servicer to purchase mortgage loans until they can be securitized and delivered back as securities. The line of credit had a balance of \$34,360,782 for FY 2017 and \$32,346,542 for FY 2016.
- Interest received on mortgage loans was \$24.6 million for FY 2017, which represented a decrease of \$6.9 million from the \$31.5 million reported in FY 2016. As the loan balance decreased, so did the interest received on loans.
- Investment income was \$19.1 million for FY 2017, which represented an increase of \$0.9 million, or 4.9% in FY 2017, from \$18.2 million in FY 2016 due to the additional MBS's added in FY 2017. The fair market value decreased by \$23.3 million in FY 2017 and increased by \$16.8 million in FY 2016. The FY 2017 fair market decrease was a result of higher 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 \$4.5 million for FY 2017 compared to \$9.1 million for FY 2016.

Management's Discussion and Analysis

June 30, 2018 and 2017 (Unaudited)

- The decrease in net position was from several factors: an extra \$1.6 million in cost of issuance fees; recorded \$2.2 million to allowance for loan loss; and, issuing an additional \$1.4 million in Down Payment Assistance loans.
- Deferred outflows of resources from interest rate swaps at the end of FY 2017 decreased to \$1.1 million from \$10.1 million at the end of FY 2016, or 89.1%. The Authority did enter into a new swap in FY 2017 but the net decrease was a result of two early swap terminations and the remaining swaps getting closer to their optional par termination dates.
- Bonds and notes outstanding of the Authority were \$1,109.9 million for FY 2017, which was an increase of \$68.6 million, or 6.6% in FY 2017, from \$1,041.3 million in FY 2016 due to more bonds being issued during the year than bonds being redeemed or maturing.
- Interest expense on bonds and notes outstanding decreased \$2.8 million, or 9.3% in FY 2017, from \$31.1 million in FY 2016 as a result of lower interest rates on the current bonds outstanding.
- The Authority performed an operating transfer of \$3.2 million from the Homeownership Mortgage Loan Program to the General Operating Account. The Authority normally 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 2018 and FY 2017

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.

In April 2012, the Authority changed its business model 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.

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 \$356 million of MBS's during FY 2018 compared to \$318 million in FY 2017.

The Homeownership Mortgage Loan Program purchased approximately \$318 million of MBS's during FY 2017 compared to \$250 million in FY 2016.

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 2018, the Authority had \$1,194.2 million in bonds outstanding, a 7.6% increase from FY 2017. As of FY 2017, the Authority had \$1,109.9 million in bonds outstanding, a 6.6% increase from FY 2016.

Management's Discussion and Analysis

June 30, 2018 and 2017 (Unaudited)

The Authority issued a total of \$291.2 million in bonds in FY 2018 as new long-term debt. Of that amount, \$236.5 million was used to finance the Homeownership Mortgage Loan Program and \$54.7 million was used to refund existing bonds. No bonds were issued to preserve bonding authority. The Authority issued a total of \$386.9 million in bonds in FY 2017. Of that total, \$240.0 million was issued as new long-term debt and \$146.9 was used to refund existing bonds. During FY 2018, the Agency chose to convert \$179.2 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 \$209.8 million in bonds in FY 2018. \$169.9 million was redeemed from refundings, prepayments and excess reserves and \$39.9 million was maturing principal. The Authority retired or paid at maturity a total of \$324.7 million in bonds in FY 2017. \$287.8 million was redeemed from refundings, prepayments and excess reserves and \$36.9 million was maturing principal.

The Authority's Homeownership Mortgage Bonds were rated AAA by Standard and Poor's in FY 2018 and FY 2017, and rated Aaa by Moody's Investors Service in FY 2018 and FY 2017. In FY 2018 and FY 2017, the Authority's Multiple Purpose Bonds were rated Aa3 by Moody's Investors Service. The Authority's Single Family Mortgage Bonds were rated Aa2, in FY 2018 and FY 2017. 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 6, Bonds Payable.

Capital Assets

Capital assets decreased by \$0.3 million in FY 2018 from \$5.6 million in FY 2017. This net change is due primarily to the amortization of existing assets.

Capital assets decreased by \$0.2 million in FY 2017 from \$5.8 million in FY 2016. This net change is due to the amortization of existing assets.

More detailed information about the Authority's capital assets can be found in Note 16, 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 100.1% funded. The State's foreclosure rate of 0.64%, delinquency rate of 2.49% and unemployment rate of 3.1% 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.

Statements of Net Position

As of June 30

<i>Assets</i>	2018	2017
<i>Current Assets</i>		
Cash and cash equivalents (Note 3)	\$ 216,545,201	\$ 241,379,894
Investment securities - other (Note 3)	102,631,464	28,160,205
Investments - program mortgage-backed securities (Note 3)	68,601,081	52,671,654
Mortgage loans receivable, net (Note 4)	47,559,249	57,386,246
Multifamily mortgage securities (Note 2)	632,908	685,441
Interest receivable	4,754,607	4,753,295
Other receivables	1,253,674	3,051,114
Other assets	2,603,223	2,463,922
Hedging derivatives (Note 8)	3,443,051	63,883
<i>Total Current Assets</i>	448,024,458	390,615,654
<i>Noncurrent Assets</i>		
Investment securities - other (Note 3)	267,347,482	316,396,541
Investments - program mortgage-backed securities (Note 3)	515,237,907	395,597,740
Mortgage loans receivable, net (Note 4)	398,511,793	464,968,639
Multifamily mortgage securities (Note 2)	20,208,516	23,013,621
Line of credit receivable (Note 5)	42,910,616	34,360,782
Other receivables	631,090	379,229
Furniture and equipment, at cost, less accumulated depreciation	770,380	977,832
Building, at cost, less accumulated depreciation	3,783,797	3,861,162
Land improvement, at cost, less accumulated depreciation	503,707	540,733
Land	220,409	220,409
<i>Total Noncurrent Assets</i>	1,250,125,697	1,240,316,688
<i>Total Assets</i>	1,698,150,155	1,630,932,342
<i>Deferred Outflows of Resources</i>		
Loss on refunding	3,390,882	2,030,119
Forward contracts	112,167	-
Swaps (Note 8)	64,017	1,166,980
Related to pensions (Note 13)	1,615,841	1,410,993
<i>Total Assets and Deferred Outflows of Resources</i>	\$ 1,703,333,062	\$ 1,635,540,434
<i>Liabilities</i>		
<i>Current Liabilities</i>		
Bonds payable (Note 6)	\$ 39,937,999	\$ 39,858,054
Accrued interest payable	4,993,392	4,366,783
Accounts payable and other liabilities (Note 17)	1,372,836	1,549,148
Multifamily escrows and reserves	5,677,512	7,447,185
<i>Total Current Liabilities</i>	51,981,739	53,221,170
<i>Noncurrent Liabilities</i>		
Bonds payable (Note 6)	1,154,281,499	1,069,501,657
Accounts payable and other liabilities (Note 17)	950,000	1,538,275
Hedging derivatives (Note 8)	176,184	1,166,980
<i>Total Noncurrent Liabilities</i>	1,155,407,683	1,072,206,912
<i>Total Liabilities</i>	1,207,389,422	1,125,428,082
<i>Deferred Inflows of Resources</i>		
Forward contracts (Note 8)	-	63,883
Gain on refunding	1,473,125	1,366,111
Swaps	3,443,051	-
Related to pensions (Note 13)	357,265	70,580
<i>Total Liabilities and Deferred Inflows of Resources</i>	1,212,662,863	1,126,928,656
<i>Net Position</i>		
Net investment in capital assets	(906,707)	(654,864)
Restricted for pension benefits	1,273,487	752,906
Restricted by state statute	10,415,020	12,470,557
Restricted by bond indentures	402,123,925	423,104,932
Restricted by HOME and NSP Program	77,764,474	72,938,247
<i>Total Net Position</i>	490,670,199	508,611,778
<i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i>	\$ 1,703,333,062	\$ 1,635,540,434

***Statements of Revenues, Expenses, and
Changes in Net Position***

For the Years Ended June 30

<i>Operating Revenues</i>	2018	2017
Interest income on mortgage loans and guaranteed mortgage securities	\$ 20,296,662	\$ 24,617,504
Earnings on investments and program mortgage-backed securities	20,076,710	19,079,820
Net decrease in the fair market value of investments and program mortgage-backed securities	(23,994,625)	(23,293,995)
HUD contributions	31,430,639	28,291,641
Fee, grant and other income	5,928,262	7,547,614
<i>Total Operating Revenues</i>	53,737,648	56,242,584
<i>Operating Expenses</i>		
Interest	28,973,558	28,195,297
Housing assistance payments	23,541,235	23,751,236
Servicer fees	1,091,863	1,282,482
Arbitrage rebate expense (benefit)	(8,486)	(35,196)
General and administrative	6,178,317	6,920,171
Bond financing costs	3,948,815	4,254,440
Other housing programs	6,634,270	7,826,855
Provision for loan loss	1,319,655	2,826,771
<i>Total Operating Expenses</i>	71,679,227	75,022,056
Change in net position	(17,941,579)	(18,779,472)
Net position, beginning of fiscal year	508,611,778	527,391,250
<i>Net Position, End of Fiscal Year</i>	\$ 490,670,199	\$ 508,611,778

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

	2018	2017
Cash Flows Provided by (Used in) Operating Activities		
Receipts from loan payments and program mortgage-backed securities	\$ 302,310,344	\$ 343,643,950
Receipts for program fees	7,488,752	9,208,727
Receipts from federal housing programs	31,430,639	28,291,641
Payments for loan programs and program mortgage-backed securities	(354,475,111)	(325,974,641)
Payments for operating expenses	(5,669,936)	(4,502,082)
Payments to employees	(3,274,515)	(4,314,431)
Payments for federal housing programs	(23,541,235)	(23,751,236)
Payments for other housing programs	(7,702,216)	(7,638,393)
Net Cash Provided by (Used in) Operating Activities	(53,433,278)	14,963,535
Cash Flows Provided by Noncapital Financing Activities		
Proceeds from sale of bonds	298,181,712	395,767,938
Principal paid on bonds and swaps	(209,708,375)	(324,686,580)
Interest paid on bonds	(33,227,221)	(32,310,861)
Bond issuance costs paid	(3,948,815)	(4,254,440)
Net Cash Provided by Noncapital Financing Activities	51,297,301	34,516,057
Cash Flows Used in Capital and Related Financing Activities		
Purchase of capital fixed assets	(121,596)	(361,156)
Proceeds from sale of assets	-	31,546
Principal paid on bonds	(70,000)	(70,000)
Interest paid on capital debt	(74,549)	(48,306)
Net Cash Used in Capital and Related Financing Activities	(266,145)	(447,916)
Cash Flows Used in Investing Activities		
Purchase of investment securities	(415,224,261)	(353,306,003)
Proceeds from sale and maturities of investment securities	383,645,524	299,925,203
Interest received on investments	9,146,166	16,141,961
Net Cash Used in Investing Activities	(22,432,571)	(37,238,839)
Change in Cash and Cash Equivalents	(24,834,693)	11,792,837
Cash and Cash Equivalents, Beginning of Year	241,379,894	229,587,057
Cash and Cash Equivalents, End of Year	\$ 216,545,201	\$ 241,379,894
Reconciliation of Operating Loss to Cash Flows Provided by (Used in) Operating Activities		
Operating loss	\$ (17,941,579)	\$ (18,779,472)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Interest on bonds payable	28,973,558	28,195,297
Net decrease in fair market value of investments	23,994,625	23,293,995
Interest from investments	(7,342,936)	(9,433,997)
Bond financing costs	3,948,815	4,254,440
Provision for loan loss	1,319,655	2,826,771
Depreciation	443,439	465,933
Changes in assets and liabilities		
Loan interest receivable	259,338	252,376
Accounts payable and other liabilities	(764,587)	(198,732)
Mortgage loans receivable	78,736,794	115,652,412
Investments - program mortgage-backed securities	(155,641,501)	(132,484,566)
Line of credit receivable	(8,549,834)	(14,240)
Other receivables	1,560,490	1,661,113
Other assets	(139,301)	907,413
Decrease/(increase) related to pensions	(520,581)	198,042
Multifamily escrows and reserves	(1,769,673)	(1,833,250)
Net Cash Provided by (Used in) Operating Activities	\$ (53,433,278)	\$ 14,963,535

Notes to Financial Statements

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 \$310,710,000 for 2018. 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.

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 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. The financial statements of the Authority include the activity of Homeownership Education Resource Organization (H.E.R.O.), a non-profit organization devoted to monitoring homeownership education in South Dakota, as a blended component unit.

Basis of Accounting:

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

Interest Income:

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

Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, cash and cash equivalents are defined as investments with original maturities of ninety days or less 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.

Investment Securities:

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

Investments - 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 fair value and unrealized gains and losses are included in income.

Fair Value:

The Authority measures fair value of certain assets and liabilities based on the framework established by generally accepted accounting principles. *GASB 72 Fair Value Measurement and Application*, defines fair value as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value:

Level 1: Values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at the measurement date.

Level 2: Values determined with inputs, other than quoted prices included within Level 1, which are observable for an asset (liability), either directly or indirectly.

Level 3: Values determined with unobservable inputs for an asset (liability) and may require a degree of professional judgement.

Mortgage Loans Receivable:

Loans receivable are carried at their unpaid principal balance less an allowance for loan loss, 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.

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.

Multifamily Mortgage Securities:

Multifamily 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.

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 was 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, net of any allowance, 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, net of any allowance, through proceeds arising from the sale of such property and certain insurance proceeds. Recoveries for Multi-Family arise from the sale of such property.

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 Revenues, Expenses and Changes in Net Position. 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.

Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. The Authority contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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 \$13,696 and (\$933,114) at June 30, 2018 and 2017, respectively, for arbitrage.

Escrows and Reserves:

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

Revenue and Expense Recognition:

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's 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.

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, (2) law through enabling legislation, (3) participation in the State pension plan, and (4) various grant agreements.
- Unrestricted – Consists of net position that does not meet the definition of net investment in capital assets or restricted.

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, 2018 and 2017, 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, 2018 and 2017, of the Authority's deposits of \$12,673,662 (carrying value of \$11,664,657) and \$8,334,614 (carrying value of \$8,080,665), respectively, all were covered by insurance or collateral held in the Authority's name in accordance with the Authority's deposit policy.

The \$7,171 and \$1,054,800 of the Authority's cash and cash equivalents being held in the State's internal investment pool as of June 30, 2018 and 2017, 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.

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, 2018 and 2017, 62% and 56%, respectively, of the Authority's securities were invested in mortgage pass-through securities. As of June 30, 2018 and 2017, the Authority had investments maturing as follows:

	2018 Investment Maturities (in Years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	Greater Than 10
U.S. Government obligations	\$ 118,776,038	\$ 17,746,471	\$ 82,988,662	\$ 17,661,174	\$ 379,731
U.S. Agency obligations	860,220,115	116,187,048	48,423,253	44,991,775	650,618,039
Money market/mutual funds	169,673,373	169,673,373	-	-	-
Investment agreements	-	-	-	-	-
Certificates of deposit	7,437,259	3,485,563	3,951,696	-	-
State obligations	2,584,523	-	1,691,245	893,278	-
Total	\$ 1,158,691,308	\$ 307,092,455	\$ 137,054,856	\$ 63,546,227	\$ 650,997,770

	2017 Investment Maturities (in Years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	Greater Than 10
U.S. Government obligations	\$ 143,079,124	\$ 18,046,278	\$ 97,533,746	\$ 26,221,655	\$ 1,277,445
U.S. Agency obligations	639,333,263	6,999,089	78,637,905	43,853,425	509,842,844
Money market/mutual funds	232,577,857	232,577,857	-	-	-
Investment agreements	186,002	-	-	-	186,002
Certificates of deposit	6,702,879	2,485,847	4,217,032	-	-
State obligations	3,197,349	-	1,233,507	1,963,842	-
Total	\$ 1,025,076,474	\$ 260,109,071	\$ 181,622,190	\$ 72,038,922	\$ 511,306,291

At June 30, 2018 and 2017, certain cash equivalents and investment in securities are restricted in prescribed amounts by the bond resolutions as follows:

	2018			
	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Risk Sharing Bonds
Capital reserve for debt service	\$ 30,579,783	\$ -	\$ 3,056,290	\$ -
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	6,207,863	-	-	-
Debt service reserve	-	3,429,300	-	-
Total	\$ 36,787,646	\$ 3,429,300	\$ 3,056,290	\$ -

	2017			
	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Risk Sharing Bonds
Capital reserve for debt service	\$ 27,238,784	\$ -	\$ 3,061,493	\$ 186,002
Mortgage reserve for debt service, bond redemption premiums, and potential for loan losses	12,468,908	-	-	-
Debt service reserve	-	4,208,850	-	-
Total	\$ 39,707,692	\$ 4,208,850	\$ 3,061,493	\$ 186,002

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:

<u>Moody's Rating</u>	2018	2017
Aaa	\$ 652,701,591	\$ 691,450,018
Aa	525,895	809,628
A	81,167,226	
Unrated	8,742,920	8,771,198
Total	\$ 743,137,632	\$ 701,030,844

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, 2018, the Authority held 5% or more of their investments with the following issuers: Federal Home Loan Mortgage Corporation (12.07%) and Federal National Mortgage Association (24.67%). At June 30, 2017, the following issuers held 5% or more of the Authority's investments: Federal Home Loan Bank (6.71%) and Federal National Mortgage Association (22.08%).

Note 4 - Mortgage Loans Receivable:

Mortgage loans receivable at June 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Homeownership Mortgage Loans	\$ 243,957,390	\$ 297,932,994
Single Family Mortgage Loans	102,872,984	123,098,615
Multiple Purpose Loans	16,103,850	18,498,116
Other (General Operating Account)	83,136,818	82,825,160
Total	<u>\$ 446,071,042</u>	<u>\$ 522,354,885</u>

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 \$1,225,045 and \$1,468,786 as of June 30, 2018 and 2017, respectively.

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 \$17,778,465 and \$17,130,037 as of June 30, 2018 and 2017, 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.

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, 2018 and 2017 is \$297,506 and \$1,261,998, respectively.

Note 5 - Line of Credit Receivable:

Effective November 1, 2014, the Authority has entered into a \$40 million line of credit (or other amount as approved) with its master servicer. The excess line of credit balance was approved in FY 2018. The master servicer will use the line of credit to reimburse themselves for qualified mortgage loan purchases. The Authority receives first security position on the qualified mortgage loans being purchased as collateral. Unpaid balances on the line of credit bear interest prior to repayment at a rate per annum of equal to that of the qualified mortgage loans purchased with funds advanced to master servicer, less an amount to the master servicer for securitizing and servicing the qualified mortgage loans. The line of credit expires on December 31, 2018. The Authority is in the process of extending the line. As of June 30, 2018 and 2017, the balance of this line of credit receivable was \$42,910,616 and \$34,360,782, respectively.

Note 6 - 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):

Bond Issue	Maturity Date	Interest Rate	2018			2017
			Serial	Term (1)	Total Outstanding	Total Outstanding
2008 Series D	2018-2019	4.3% - 4.45%	\$ -	\$ -	\$ -	\$ 4,125
2008 Series E	2023-2027	5.375% - 5.60%	-	-	-	1,955
2008 Series F	2027-2039	.95%(2)	-	-	-	34,000
2008 Series G	2018-2023	5.85%	-	-	-	215
2009 Series B	2018-2021	3.75%-4.125%	-	-	-	10,720
2009 Series C	2027-2039	.94%(2)	-	-	-	22,000
2012 Series A	2031	4.50%	-	5,270	5,270	9,110
2012 Series B	2018-2026	1.85%-3.25%	10,360	5,925	16,285	16,710
2012 Series D	2018-2029	2.0%-4.0%	9,395	6,595	15,990	21,075
2012 Series E	2025	2.80%	-	9,355	9,355	9,355
2012 Series F	2029-2033	3.38%	9,995	-	9,995	11,025
2013 Series A	2018-2030	1.85%-3.0%	1,215	3,980	5,195	7,445
2013 Series B	2019-2025	1.65%-3.0%	7,940	-	7,940	7,940
2013 Series C	2033	3.55%	-	5,105	5,105	5,440
2013 Series D	2043	3.25%-4.0%	-	34,831	34,831	41,499
2013 Series E	2018-2044	2.0%-4.0%	1,905	5,880	7,785	10,980
2013 Series F	2020-2044	2.45%-4.4%	7,845	6,940	14,785	18,515
2014 Series A	2018-2044	1.875%-4.0%	2,150	8,370	10,520	14,035
2014 Series B	2020-2024	2.2%-3.25%	7,750	-	7,750	7,750
2014 Series C	2024-2029	3.25%-3.85%	3,450	6,755	10,205	10,665
2014 Series D	2018-2028	1.2%-3.15%	23,735	10,070	33,805	40,015
2014 Series E	2044	4.00%	-	11,740	11,740	15,055
2014 Series F	2018-2034	1.912%-4.0%	12,975	10,245	23,220	27,515
2015 Series A	2024-2031	2.5%-3.4%	4,540	10	4,550	13,990
2015 Series B	2018-2024	1.572%-3.272%	22,620	-	22,620	27,350
2015 Series C	2045	1.99%(2)	-	30,000	30,000	30,000
2015 Series D	2018-2045	1.15%-4.0%	16,625	20,070	36,695	44,255
2015 Series E	2037	2.105%(2)	-	25,000	25,000	25,000
2016 Series A	2018-2036	1.65%-3.8%	18,205	11,630	29,835	36,825
2016 Series B	2018-2046	.90%-3.5%	13,110	35,630	48,740	54,065
2016 Series C	2018-2025	1.05%-2.45%	34,305	-	34,305	38,115
2016 Series D	2025-2046	2.45%-3.5%	21,645	47,130	68,775	75,605
2016 Series E	2037	3.84%(2)	-	50,000	50,000	50,000
2017 Series A	2018-2037	1.75%-3.89%	10,560	8,590	19,150	24,870
2017 Series B	2022-2047	1.75%-4.0%	25,800	82,155	107,955	110,500
2017 Series C	2018-2039	1.2%-4.0%	16,175	9,435	25,610	30,240
2017 Series D	2018-2047	1.05%-4.0%	32,280	91,125	123,405	-
2017 Series E	2018-2039	1.4%-4.0%	23,170	18,800	41,970	-
2017 Series F	2027-2047	2.6%-3.65%	12,385	9,555	21,940	-
2018 Series A	2018-2048	1.65%-4.0%	25,675	73,325	99,000	-
Plus unamortized premium					20,328	16,599
Total Homeownership Mortgage Program Bonds					\$ 1,039,654	\$ 924,558

(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	2018			2017
			Serial	Term (1)	Total Outstanding	Total Outstanding
2010-1/2009-1A	2028	3.43%	\$ -	\$ 7,935	\$ 7,935	\$ 9,390
2010-2/2009 1-B	2018-2041	2.875%-4.5%	860	20,515	21,375	26,215
2011-1/20091-C	2018-2028	3.0%-5.0%	5,725	1,405	7,130	10,010
2011-2/20091-D	2018-2041	2.47%-4.25%	13,070	23,120	36,190	45,160
2016-1	2018-2041	1.33%-3.77%	9,400	32,280	41,680	49,520
Plus unamortized premium					891	1,162
Total Single Family Mortgage Bonds					<u>\$ 115,201</u>	<u>\$ 141,457</u>

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

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

Bond Issue	Maturity Date	Interest Rate	2018			2017
			Serial	Term (1)	Total Outstanding	Total Outstanding
2008 Series A	2048	1.66%(2)	\$ -	\$ 6,580	\$ 6,580	\$ 6,685
2009 Series A	2048	1.67%(2)	-	6,185	6,185	6,255
2013 Series A	2018-2028	1.75%-3.65%	4,300	500	4,800	6,155
Total Multiple Purpose Bonds					<u>\$ 17,565</u>	<u>\$ 19,095</u>

(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):

Bond Issue	Maturity Date	Interest Rate	2018			2017
			Serial	Term (1)	Total Outstanding	Total Outstanding
Series 2001	2031	1.60%(2)	\$ -	\$ 6,495	\$ 6,495	\$ 6,495
Series 2001	2034	1.62%(2)	-	10,385	10,385	10,385
Country Meadow	2044	1.51%(2)	-	4,920	4,920	4,920
Total Multifamily Housing Revenue Bonds					<u>\$ 21,800</u>	<u>\$ 21,800</u>

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

Bond Issue	Maturity Date	Interest Rate	2018			Total Outstanding	2017 Total Outstanding
			Serial	Term			
Series 2000	2018-2032	5.85%	\$ -	\$ -	\$ -	\$ -	\$ 2,450
Total Multifamily Risk Sharing Bonds						\$ -	\$ 2,450
Total Bonds Outstanding						\$ 1,194,220	\$ 1,109,360

Following are the schedules of changes in bonds payable for the fiscal years ended June 30, 2018 and 2017:

	Balance			Balance June 30, 2018	Amounts Due Within One Year
	July 1, 2017	Additions	Deductions		
Homeownership Mortgage Program Bonds	\$ 907,959,469	\$ 291,180,000	\$ 179,813,375	\$ 1,019,326,094	\$ 32,797,999
Single Family Mortgage Bonds	140,295,000	-	25,985,000	114,310,000	5,750,000
Multiple Purpose Bonds	19,095,000	-	1,530,000	17,565,000	1,390,000
Multifamily Housing Revenue Bonds	21,800,000	-	-	21,800,000	-
Multifamily Risk Sharing Bonds	2,450,000	-	2,450,000	-	-
Unamortized Premium/Discount	17,760,242	7,001,723	3,543,561	21,218,404	-
	\$ 1,109,359,711	\$ 298,181,723	\$ 213,321,936	\$ 1,194,219,498	\$ 39,937,999

	Balance			Balance June 30, 2017	Amounts Due Within One Year
	July 1, 2016	Additions	Deductions		
Homeownership Mortgage Program Bonds	\$ 794,001,049	\$ 333,225,000	\$ 219,266,580	\$ 907,959,469	\$ 32,063,054
Single Family Mortgage Bonds	181,505,000	53,660,000	94,870,000	140,295,000	6,305,000
Multiple Purpose Bonds	20,985,000	-	1,890,000	19,095,000	1,395,000
Multifamily Housing Revenue Bonds	23,564,999	-	1,764,999	21,800,000	-
Multifamily Risk Sharing Bonds	9,415,000	-	6,965,000	2,450,000	95,000
Unamortized Premium/Discount	11,835,670	8,882,938	2,958,366	17,760,242	-
	\$ 1,041,306,718	\$ 395,767,938	\$ 327,714,945	\$ 1,109,359,711	\$ 39,858,054

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 June 30	Homeownership Mortgage Program Bonds		Single Family Mortgage Bonds		Multiple Purpose Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 32,797,998	\$ 28,765,951	\$ 5,750,000	\$ 3,638,628	\$ 1,390,000	\$ 443,535
2020	40,340,000	28,666,770	6,050,000	3,470,128	1,420,000	415,425
2021	41,795,000	27,935,810	5,540,000	3,288,659	1,450,000	382,420
2022	42,520,000	26,912,756	4,935,000	3,095,254	850,000	345,046
2023	41,160,000	25,960,619	4,090,000	2,956,964	225,000	330,587
2024-2028	192,930,000	113,639,621	14,735,000	13,285,433	1,310,000	1,551,731
2029-2033	174,530,000	87,504,896	22,355,000	10,055,013	2,180,000	1,269,717
2034-2038	152,270,000	63,654,847	28,165,000	5,982,626	2,165,000	1,007,835
2039-2043	121,250,000	41,911,749	22,690,000	1,416,970	2,780,000	686,688
2044-2048	177,023,096	11,208,687	-	-	3,580,000	280,814
2048-2052	2,710,000	53,899	-	-	215,000	1,785
Total	\$ 1,019,326,094	\$ 456,215,605	\$ 114,310,000	\$ 47,189,675	\$ 17,565,000	\$ 6,715,583

Year Ended June 30	Multifamily Housing Revenue Bonds		Multifamily Risk Sharing Bonds	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ 343,599	\$ -	\$ -
2020	-	345,166	-	-
2021	-	344,356	-	-
2022	-	344,761	-	-
2023	-	344,761	-	-
2024-2028	-	1,724,210	-	-
2029-2033	6,495,000	1,482,907	-	-
2034-2038	10,385,000	580,802	-	-
2039-2043	-	371,460	-	-
2044-2048	4,920,000	43,337	-	-
	\$ 21,800,000	\$ 5,925,359	\$ -	\$ -

Note 7 - Refunding of Debt:

In November 2016 the Authority issued \$53,660,000 of fixed rate Single Family Mortgage Bonds, 2016 Series 1. The 2016 Series 1 Bonds, totaling \$53,660,000 were used to refund \$54,400,000 of Single Family Mortgage Bonds, 2009 Series 1-A and 2009 Series 1-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 \$11.5 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 2016 Series 1 Bonds and the Refunded Bonds, net of cost of issuance, will result in an economic gain of approximately \$3.4 million.

In November 2016 the Authority issued \$38,115,000 of fixed rate Homeownership Mortgage Bonds, 2016 Series C. The 2016 Series C Bonds, totaling \$38,115,000 were used to refund \$38,115,000 of Homeownership Mortgage Bonds, 2009 Series A (the Refunded Bonds). The purpose of the refunding was to transfer excess yield from the Refunded Bonds to the 2016 Series C Bonds and to replace variable rate debt with fixed rate debt, which would have decreased total debt service payments by approximately \$0.9 million assuming the variable rate on the refunded bonds would have remained at 0.54%, the same rate as the rate on the refunding date. Assuming a mortgage prepayment speed of 100% FHA, the difference between the present value of the cash flow required for debt service of the 2016 Series C Bonds and the Refunded Bonds, net of cost of issuance, will result in an economic loss of approximately \$3.8 million.

In June 2017 the Authority issued \$24,870,000 of fixed rate Homeownership Mortgage Bonds, 2017 Series A. The 2017 Series A Bonds, totaling \$24,870,000 were used to refund \$24,870,000 of Homeownership Mortgage Bonds, 2007 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 \$13.3 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 2017 Series A Bonds and the Refunded Bonds, net of cost of issuance, will result in an economic gain of approximately \$2.6 million.

In June 2017 the Authority issued \$30,240,000 of fixed rate Homeownership Mortgage Bonds, 2017 Series C. The 2017 Series C Bonds, totaling \$30,240,000 along with premium generated from the bond sale, were used to refund \$31,090,000 of Homeownership Mortgage Bonds, 2008 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 \$12.4 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 2017 Series C Bonds and the Refunded Bonds, net of cost of issuance, will result in an economic gain of approximately \$4.0 million.

In December 2017 the Authority issued \$54,680,000 of fixed rate Homeownership Mortgage Bonds, 2017 Series E and 2017 Series F (the Refunding Bonds). The Refunding Bonds, totaling \$54,680,000 along with premium generated from the bond sale, were used to refund \$56,000,000 of Homeownership Mortgage Bonds, 2008 Series F and 2009 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 \$21.8 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 Refunding Bonds and the Refunded Bonds, net of cost of issuance, will result in an economic gain of approximately \$7.6 million.

Note 8 - 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, 2018 and 2017, 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	Rate Payable	Rate Receivable	Counterparty Credit Rating*	Fair Value June 30, 2018	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2018	Fair Value June 30, 2017	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2017
Merrill Lynch Capital Services									
2007 I	-	10/16/2007 6/15/2017	4.14%	63.8% of LIBOR plus 0.30%	Baa1	\$ -	\$ -	\$ -	\$ 1,773,345
JPMorgan Chase Bank, N.A.									
2008 F	-	9/4/2008 5/1/2039	3.85%	63.7% of LIBOR plus 0.31%	Aa2	-	1,322,222	(1,322,222)	1,311,074
Wells Fargo Bank									
2015 E-1	25,000,000	12/17/2015 11/1/2037	2.11%	66.4% of LIBOR plus 0.22%	Aa1	902,440	948,875	(46,435)	1,575,631
2015 E-2	25,000,000	12/17/2015 11/1/2037	66.4% of LIBOR plus 0.22%	22yr MMD plus 0.87%	Aa1	267,388	(23,806)	291,194	323,916
2016 E-1	50,000,000	11/1/2016 5/1/2037	2.21%	66.4% of LIBOR plus 0.23%	Aa1	1,559,314	1,173,756	385,558	385,558
2016 E-2	50,000,000	11/1/2016 5/1/2037	66.4% of 1M LIBOR plus 0.23%	21yrMMD plus 0.95%	Aa1	713,909	60,870	653,039	653,039
Bank of America, N.A.									
2009 C	-	11/18/2009 5/1/2039	3.14%	64% of LIBOR plus 0.22%	A1	-	894,201	(894,201)	867,306
Merrill Lynch Derivative Products, AG									
2008 C	-	4/23/2008 5/1/2039	3.44%	63.7% of LIBOR plus 0.30%	Aa3	-	-	-	1,833,357
MPB 2008 A	6,580,000	8/2/2008 5/1/2048	3.55%	63.8% of LIBOR plus 0.20%	Aa3	(64,017)	169,896	(233,913)	244,973
						<u>\$ 3,379,034</u>		<u>\$ (1,166,980)</u>	

*Moody's Investor Service

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, along with considerations for non-performance risk, 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, 2018 and 2017. 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, 2018 and 2017, 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, 2018 and 2017, the weighted average interest rate on the Authority's variable rate debt associated with swaps was 1.16% and 1.16% per annum, respectively, while the weighted average interest rate on the swaps was 1.26% and 1.27% 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.

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 bonds associated with swaps will be limited to thirty percent (30%) of the total of all outstanding bonds under the related indenture at the time bonds associated with swaps are issued. The total outstanding bonds associated with 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, 2018:

Year Ended June 30	Variable Rate Bond		Interest Rate	Total
	Principal	Interest	Swap - Net	
2019	\$ 110,000	\$ 2,913,772	\$ (1,189,778)	\$ 1,833,994
2020	120,000	2,911,904	(1,044,841)	1,987,063
2021	120,000	2,909,912	(1,047,262)	1,982,650
2022	130,000	2,907,879	(1,049,733)	1,988,146
2023	130,000	2,905,721	(1,052,355)	1,983,366
2024-2028	2,150,000	14,488,387	(5,302,398)	11,335,989
2029-2033	37,475,000	11,586,774	(4,188,962)	44,872,812
2034-2038	38,195,000	3,473,042	(938,628)	40,729,414
2039-2043	1,410,000	210,737	256,086	1,876,823
2044-2048	1,740,000	81,838	99,449	1,921,287
	<u>\$ 81,580,000</u>	<u>\$ 44,389,966</u>	<u>\$ (15,458,422)</u>	<u>\$ 110,511,544</u>

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 did not have any rollover risk as of June 30, 2018 and 2017.

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 hedging derivative instruments and the fair values were obtained from an external pricing specialist using current trade pricing for similar financial instruments in active markets that the Authority has the ability to access. A positive fair value represents money due the Authority by the counterparty, while a negative fair value represents money payable by the Authority.

Outstanding forward sales contracts as of June 30, 2018 are as follows:

Forward Contracts to sell TBA Mortgage-Backed Securities	Notional Amount June 30, 2018	Trade Date	Delivery Date	Coupon Rate	Fair Values June 30, 2018	Moody's Credit Rating
Bank of America Merrill Lynch						
FNMA	\$ 1,000,000	5/8/2018	7/12/2018	5.00%	\$ (2,969)	Aaa
GNMA II	1,000,000	5/14/2018	7/19/2018	4.50%	(4,844)	Not rated
FNMA	1,000,000	6/25/2018	7/12/2018	4.50%	(1,563)	Aaa
FNMA	(1,000,000)	6/25/2018	7/12/2018	5.00%	1,876	Aaa
Bank of New York Mellon						
GNMA II	500,000	4/20/2018	7/19/2018	4.50%	(2,109)	Not rated
FNMA	1,000,000	5/15/2018	8/13/2018	4.00%	(8,555)	Aaa
FNMA	600,000	6/12/2018	9/13/2018	4.50%	(2,391)	Aaa
GNMA II	700,000	6/14/2018	8/21/2018	4.00%	(1,832)	Not rated
GNMA II	700,000	6/14/2018	8/21/2018	4.50%	(1,394)	Not rated
Bank of Oklahoma						
FNMA	500,000	4/12/2018	7/12/2018	5.00%	1,133	Aaa
GNMA II	600,000	5/10/2018	7/19/2018	4.00%	(3,188)	Not rated
FNMA	1,000,000	5/15/2018	8/13/2018	5.00%	(5,938)	Aaa
GNMA II	500,000	5/16/2018	7/19/2018	4.50%	(4,297)	Not rated
GNMA II	1,000,000	5/18/2018	8/21/2018	4.50%	(7,656)	Not rated
FNMA	500,000	5/29/2018	8/13/2018	4.50%	117	Aaa
GNMA II	500,000	5/29/2018	8/21/2018	4.50%	(625)	Not rated
GNMA II	1,000,000	6/4/2018	8/21/2018	4.50%	(313)	Not rated
GNMA II	600,000	6/18/2018	8/21/2018	4.50%	(914)	Not rated
GNMA II	600,000	6/26/2018	9/20/2018	4.00%	(1,125)	Not rated
GNMA II	600,000	6/26/2018	9/20/2018	4.50%	(703)	Not rated
FNMA	500,000	6/28/2018	9/13/2018	5.00%	(156)	Aaa
GNMA II	1,800,000	6/28/2018	9/20/2018	4.50%	(491)	Not rated
ED&F Man Capital Markets						
GNMAII	700,000	5/1/2018	7/19/2018	4.50%	(3,773)	Not rated
FNMA	500,000	5/10/2018	7/12/2018	4.00%	(2,656)	Aaa
GNMAII	600,000	5/10/2018	7/19/2018	4.50%	(3,281)	Not rated
GNMAII	1,200,000	5/24/2018	8/21/2018	4.50%	(3,938)	Not rated
FNMA	123,100	6/8/2018	7/12/2018	4.00%	(500)	Aaa
GNMAII	713,464	6/15/2018	7/19/2018	4.50%	(557)	Not rated
GNMAII	1,000,000	6/19/2018	9/20/2018	4.50%	77	Not rated
FNMA	500,000	6/27/2018	9/13/2018	4.00%	78	Aaa
FNMA	500,000	6/27/2018	9/13/2018	4.50%	(39)	Aaa
Daiwa Capital Markets						
FNMA	500,000	4/17/2018	7/12/2018	4.00%	234	Aaa
FNMA	1,000,000	4/25/2018	7/12/2018	5.00%	(4,531)	Aaa
FNMA	1,000,000	5/21/2018	8/13/2018	5.00%	(5,469)	Aaa
FNMA	500,000	5/30/2018	8/13/2018	5.00%	(469)	Aaa
GNMAII	800,000	6/4/2018	8/21/2018	4.00%	(500)	Not rated
FNMA	600,000	6/18/2018	9/13/2018	4.00%	(1,875)	Aaa
FNMA	1,000,000	6/25/2018	7/12/2018	4.50%	(1,563)	Aaa
FNMA	(1,000,000)	6/25/2018	7/12/2018	5.00%	1,720	Aaa
Jefferies						
GNMAII	500,000	4/20/2018	7/19/2018	4.00%	(1,875)	Not rated
GNMAII	1,000,000	5/4/2018	7/19/2018	4.50%	(4,688)	Not rated
GNMAII	800,000	5/18/2018	8/21/2018	4.00%	(7,000)	Not rated
GNMAII	600,000	5/24/2018	8/21/2018	4.00%	(2,531)	Not rated
GNMAII	1,000,000	6/1/2018	8/21/2018	4.50%	(1,250)	Not rated
FNMA	600,000	6/7/2018	8/13/2018	4.00%	(2,625)	Aaa
GNMAII	1,000,000	6/8/2018	8/21/2018	4.50%	(2,188)	Not rated
FNMA	600,000	6/22/2018	9/13/2018	5.00%	(1,406)	Aaa
Piper Jaffray						
FNMA	1,000,000	4/25/2018	7/12/2018	4.00%	(9,219)	Aaa
GNMAII	600,000	5/2/2018	7/19/2018	4.00%	(3,563)	Not rated
FNMA	600,000	5/3/2018	7/12/2018	5.00%	(843)	Aaa
	<u>\$ 33,736,564</u>				<u>\$ (112,167)</u>	

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Outstanding forward sales contracts as of June 30, 2017 are as follows:

Forward Contracts to sell TBA Mortgage-Backed Securities	Notional Amount June 30, 2017	Trade Date	Delivery Date	Coupon Rate	Fair Values June 30, 2017	Moody's Credit Rating
Bank of New York Mellon						
FNMA	\$ 500,000	4/18/2017	7/13/2017	4.00%	\$ 469	Aaa
FNMA	800,000	5/11/2017	8/14/2017	4.00%	(4,875)	Aaa
GNMA II	76,988	6/16/2017	7/20/2017	4.00%	84	Not rated
Bank of America Merrill Lynch						
GNMA II	1,000,000	5/19/2017	8/21/2017	3.00%	3,750	Not rated
Bank of Oklahoma						
GNMA II	1,300,000	4/26/2017	7/20/2017	3.50%	(3,656)	Not rated
FNMA	800,000	5/11/2017	8/14/2017	3.50%	(6,250)	Aaa
GNMA II	1,000,000	5/15/2017	7/20/2017	3.00%	625	Not rated
GNMA II	1,000,000	5/22/2017	8/21/2017	3.50%	3,281	Not rated
FNMA	500,000	5/31/2017	8/14/2017	3.50%	1,680	Aaa
FNMA	1,000,000	6/13/2017	9/13/2017	4.00%	2,266	Aaa
FNMA	1,000,000	6/16/2017	9/13/2017	3.50%	4,492	Aaa
GNMA II	1,000,000	6/16/2017	8/21/2017	3.00%	7,031	Not rated
GNMA II	134,117	6/16/2017	7/20/2017	3.50%	482	Not rated
GNMA II	1,000,000	6/21/2017	9/21/2017	3.50%	3,984	Not rated
GNMA II	1,000,000	6/28/2017	9/21/2017	3.50%	3,203	Not rated
ED&F Man Capital Markets						
FNMA	500,000	4/20/2017	7/13/2017	3.50%	(938)	Aaa
GNMAII	1,000,000	4/21/2017	7/20/2017	3.50%	1,445	Not rated
FNMA	500,000	4/26/2017	7/13/2017	3.50%	(2,734)	Aaa
FNMA	500,000	4/26/2017	7/13/2017	4.00%	(2,188)	Aaa
GNMAII	1,000,000	4/26/2017	7/20/2017	3.00%	(1,563)	Not rated
GNMAII	1,000,000	5/1/2017	7/20/2017	3.50%	(1,406)	Not rated
FNMA	500,000	5/4/2017	7/13/2017	3.50%	(2,656)	Aaa
FNMA	500,000	5/4/2017	7/13/2017	4.00%	(1,875)	Aaa
GNMAII	1,000,000	5/9/2017	7/20/2017	3.00%	(2,578)	Not rated
GNMAII	800,000	5/10/2017	7/20/2017	3.50%	(2,438)	Not rated
FNMA	1,000,000	5/17/2017	8/14/2017	3.50%	3,281	Aaa
FNMA	500,000	5/18/2017	8/14/2017	4.00%	1,523	Aaa
FNMA	500,000	5/25/2017	8/14/2017	3.00%	938	Aaa
GNMAII	1,000,000	5/25/2017	8/21/2017	3.00%	5,313	Not rated
GNMAII	1,000,000	5/25/2017	8/21/2017	3.50%	4,531	Not rated
GNMAII	1,800,000	6/5/2017	8/21/2017	3.50%	9,281	Not rated
FNMA	500,000	6/7/2017	8/14/2017	4.00%	2,188	Aaa
GNMAII	500,000	6/7/2017	8/21/2017	3.00%	5,039	Not rated
FNMA	(1,088,180)	6/8/2017	7/13/2017	3.50%	(4,931)	Aaa
GNMAII	1,200,000	6/9/2017	8/21/2017	3.50%	5,344	Not rated
GNMAII	1,500,000	6/15/2017	8/21/2017	3.50%	7,031	Not rated
GNMAII	1,012,436	6/16/2017	7/20/2017	3.50%	3,955	Not rated
FNMA	800,000	6/21/2017	9/13/2017	4.00%	2,063	Aaa
GNMAII	1,000,000	6/22/2017	9/21/2017	3.00%	8,047	Not rated
GNMAII	3,000,000	6/26/2017	7/20/2017	3.50%	19,219	Not rated
GNMAII	(3,000,000)	6/26/2017	7/20/2017	3.50%	(13,125)	Not rated
FNMA	500,000	6/27/2017	9/13/2017	3.50%	1,738	Aaa
GNMAII	1,000,000	6/29/2017	9/21/2017	3.00%	2,813	Not rated
	\$ 32,135,361				\$ 63,883	

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Note 9 - Fair Value

The Authority had the following recurring fair value measurements as of June 30, 2018:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments by fair value level			
US Treasuries	\$ -	\$ 118,776,038	\$ -
US Government Agencies	-	860,220,115	-
Money Market Mutual Funds	169,673,373	-	-
Certificates of Deposit	-	7,437,259	-
State Obligations	-	2,584,523	-
Total investments by fair value level	<u>\$ 169,673,373</u>	<u>\$ 989,017,935</u>	<u>\$ -</u>
Hedging derivative instruments			
Interest Rate Swaps	\$ -	\$ 3,379,034	\$ -
Forward MBS Contracts	-	(112,167)	-
Total hedging derivative instruments	<u>\$ -</u>	<u>\$ 3,266,867</u>	<u>\$ -</u>

The Authority had the following recurring fair value measurements as of June 30, 2017:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments by fair value level			
US Treasuries	\$ -	\$ 143,079,124	\$ -
US Government Agencies	-	639,333,263	-
Money Market Mutual Funds	232,577,857	-	-
Investment Agreements	-	186,002	-
Certificates of Deposit	-	6,702,879	-
State Obligations	-	3,197,349	-
Total investments by fair value level	<u>\$ 232,577,857</u>	<u>\$ 792,498,617</u>	<u>\$ -</u>
Hedging derivative instruments			
Interest Rate Swaps	\$ -	\$ (1,166,980)	\$ -
Forward MBS Contracts	-	63,883	-
Total hedging derivative instruments	<u>\$ -</u>	<u>\$ (1,103,097)</u>	<u>\$ -</u>

The Authority obtains its fair value pricing on investments from their third party trustee. There are multiple pricing methodologies which are used to value the Authority's U.S. Treasury and Government Agency securities, Money Market Mutual Funds, Investment Agreements, Certificates of Deposit, and State Obligations. These methods include, but are not limited to, gathering pricing from multiple market sources and vendor credit information, observed market movements, sector news into the pricing applications and models, or manual methods. Money Market Mutual Funds classified as Level 1 are valued using quoted prices in active markets for those securities. Since the Authority's debt security investments are not actively traded on an exchange and rely on significant observable inputs for fair value pricing, these securities are classified as Level 2.

The Authority obtains its fair value pricing on interest rate swaps and forward MBS contracts from a third party vendor. See Note 8 for further description of the fair value methodology for derivative instruments.

Note 10 - 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:

	<u>2018</u>	<u>2017</u>
Bond and notes reserve	\$ 2,878,003	\$ 2,668,374
Program operations reserve	2,758,097	4,946,107
Total	<u>\$ 5,636,100</u>	<u>\$ 7,614,481</u>

Note 11 - Commitments:

As of June 30, 2018, the Authority had the following Homeownership Mortgage Program commitments:

- Commitments to fund the Homeownership Mortgage Program aggregating \$78,548,345.

Note 12 - 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, 2018 and 2017, for the Homeownership Mortgage Program Bonds, Single Family Mortgage Bonds and the Multiple Purpose Bonds follows:

	2018			2017		
	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)	\$ 12,586,617	\$ (3,305,424)	\$ (843,794)	\$ 11,197,629	\$ (2,173,425)	\$ (79,877)
Current assets	384,876,139	27,322,767	11,936,575	329,643,275	28,693,336	11,040,698
Noncurrent assets	980,092,957	95,723,208	70,586,943	939,611,824	118,641,416	73,297,144
Total Assets	1,377,555,713	119,740,551	81,679,724	1,280,452,728	145,161,327	84,257,965
Deferred Outflows of Resources	3,326,904	-	240,162	2,696,422	-	500,677
Total Assets and Deferred Outflows of Resources	\$ 1,380,882,617	\$ 119,740,551	\$ 81,919,886	\$ 1,283,149,150	\$ 145,161,327	\$ 84,758,642
Liabilities						
Current liabilities	\$ 37,149,534	\$ 6,384,044	\$ 1,477,932	\$ 35,585,145	\$ 7,077,820	\$ 1,489,701
Noncurrent liabilities	1,006,967,973	109,450,693	16,239,017	893,428,162	135,151,562	17,933,913
Total Liabilities	1,044,117,507	115,834,737	17,716,949	929,013,307	142,229,382	19,423,614
Deferred Inflows of Resources	4,916,176	-	-	1,429,994	-	-
Total Liabilities and Deferred Inflows of Resources	1,049,033,683	115,834,737	17,716,949	930,443,301	142,229,382	19,423,614
Net Position						
Net investment in capital assets	-	-	(1,811,810)	-	-	(1,688,706)
Restricted by bond indentures	331,848,934	3,905,814	66,014,747	352,705,849	2,931,945	67,023,734
Total Liabilities, Deferred Inflows, and Net Position	\$ 1,380,882,617	\$ 119,740,551	\$ 81,919,886	\$ 1,283,149,150	\$ 145,161,327	\$ 84,758,642
Condensed Statement of Revenues, Expenses, and Changes in Net Position						
Operating revenues	\$ 9,710,461	\$ 5,146,717	\$ 1,062,689	\$ 12,803,243	\$ 6,065,019	\$ 1,170,507
Operating expenses	29,790,158	4,172,848	1,591,844	28,896,714	5,511,397	805,093
Operating income	(20,079,697)	973,869	(529,155)	(16,093,471)	553,622	365,414
Transfers in (out)	(777,218)	-	(602,936)	(3,167,645)	-	-
Change in net position	(20,856,915)	973,869	(1,132,091)	(19,261,116)	553,622	365,414
Beginning net position	352,705,849	2,931,945	65,335,028	371,966,965	2,378,323	64,969,614
Ending net position	\$ 331,848,934	\$ 3,905,814	\$ 64,202,937	\$ 352,705,849	\$ 2,931,945	\$ 65,335,028
Condensed Statement of Cash Flows						
Net cash provided (used) by:						
Operating activities	\$ (85,520,333)	\$ 26,244,467	\$ 3,335,571	\$ (32,666,175)	\$ 38,197,089	\$ 6,763,430
Noncapital financing activities	85,635,415	(30,236,586)	(2,602,283)	89,002,859	(46,266,083)	(2,189,605)
Capital and related financing activities	-	-	(144,549)	-	-	(118,306)
Investing activities	(23,918,550)	322,589	(1,682,347)	(26,963,767)	(7,276,089)	(4,729,136)
Net change	(23,803,468)	(3,669,530)	(1,093,608)	29,372,917	(15,345,083)	(273,617)
Beginning cash and cash equivalents	215,907,812	13,032,847	2,370,216	186,534,895	28,377,930	2,643,833
Ending cash and cash equivalents	\$ 192,104,344	\$ 9,363,317	\$ 1,276,608	\$ 215,907,812	\$ 13,032,847	\$ 2,370,216

Note 13 - Pension Plan:

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final three year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with three years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80% to 99.9%, indexed with the CPI
 - 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLA, the fair value of assets will be greater or equal to the accrued liabilities.

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Authority's share of contributions to the SDRS, at 6% of salary for the fiscal years ending June 30, 2018, 2017 and 2016 were \$192,445, \$201,074 and \$198,406, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2017 and 2016, SDRS is 100.1 and 96.9%, respectively, funded and accordingly has a net pension asset and liability, respectively. The proportionate shares of the components of the net pension liability (asset) of SDRS, for the Authority as of the measurement period ending June 30, 2017 and 2016, respectively, and reported by the Authority as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Proportionate share of total pension liability	\$ 19,117,560	\$ 18,873,225
Less proportionate share of net position restricted for pension benefits	19,132,471	18,285,718
Proportionate share of net pension liability (asset)	<u>\$ (14,911)</u>	<u>\$ 587,507</u>

At June 30, 2018 and 2017, the Authority reported a liability (asset) of (\$14,911) and \$587,507, respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Authority's proportion was 0.1643113% which was a decrease of 5.5% or 0.0096154% from its proportion measured as of June 30, 2016 of 0.1739267% which was an increase of 7.1% or 0.0115786% from its proportion measured as of June 30, 2015 of 0.1623481%.

For the years ended June 30, 2018 and 2017, the Authority recognized a reduction of pension expense of \$520,581, and pension expense of \$411,845, respectively. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 238,922	\$ -
Changes in assumption	1,157,779	-
Net difference between projected and actual earnings on pension plan investments	-	286,685
Changes in proportion and difference between Authority contributions and proportionate share of contributions	26,695	70,580
Authority contributions subsequent to the measurement date	192,445	-
Total	<u>\$ 1,615,841</u>	<u>\$ 357,265</u>

At June 30, 2018, there is \$ 192,445 reported as deferred outflow of resources related to pensions resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ended June 30:</u>	
2019	\$ 288,042
2020	496,899
2021	374,500
2022	(93,310)
Total	<u>\$ 1,066,131</u>

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 204,524	\$ -
Changes in assumption	351,889	-
Net difference between projected and actual earnings on pension plan investments	653,506	-
Changes in proportion and difference between Authority contributions and proportionate share of contributions	-	70,580
Authority contributions subsequent to the measurement date	201,074	-
Total	<u>\$ 1,410,993</u>	<u>\$ 70,580</u>

At June 30, 2017, there was \$201,074 reported as deferred outflow of resources related to pensions resulting from Authority contributions subsequent to the measurement date that was recognized as an increase of the net pension liability in the year ending June 30, 2018.

Actuarial Assumptions:

The total pension liability (asset) in the SDRS June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00%
Investment rate of return	6.50% net of plan investment expense pension plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of asset to changes in the discount rate:

The following presents the Authority's proportionate share of net pension liability (asset) as of June 30, 2018 calculated using the discount rate of 6.50%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Authority's proportionate share of the net pension liability (asset)	\$ 2,731,024	\$ (14,911)	\$ (2,250,996)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

Note 14 - 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 15 - 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, 2018 and 2017, the Authority managed its risks as follows:

The Authority purchased insurance over property, workmen's compensation and health insurance for its employees from a commercial carrier. The Authority purchased its liability, errors and omissions and employee practices liability coverage through its participation in the South Dakota Authority Captive Insurance Company, a component unit of the State of South Dakota. The Authority provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Note 16 - Capital Assets:

	Beginning Balance July 1, 2017	Increase	Decrease	Ending Balance June 30, 2018
Capital assets not depreciated				
Land	\$ 220,409	\$ -	\$ -	\$ 220,409
Total capital assets not depreciated	<u>220,409</u>	<u>-</u>	<u>-</u>	<u>220,409</u>
Capital assets depreciated				
Buildings	4,907,732	50,383	-	4,958,115
Land improvements	1,261,944	-	-	1,261,944
Furniture and equipment	4,108,292	71,214	14,258	4,165,248
Total capital assets depreciated	<u>10,277,968</u>	<u>121,597</u>	<u>14,258</u>	<u>10,385,307</u>
Total capital assets	<u>10,498,377</u>	<u>121,597</u>	<u>14,258</u>	<u>10,605,716</u>
Less accumulated depreciation for:				
Buildings	1,046,570	127,748	-	1,174,318
Land improvements	721,211	37,026	-	758,237
Furniture and equipment	3,130,460	278,666	14,258	3,394,868
Total accumulated depreciation	<u>4,898,241</u>	<u>443,440</u>	<u>14,258</u>	<u>5,327,423</u>
Capital assets, net	<u>\$ 5,600,136</u>	<u>\$ (321,843)</u>	<u>\$ -</u>	<u>\$ 5,278,293</u>
	Beginning Balance July 1, 2016	Increase	Decrease	Ending Balance June 30, 2017
Capital assets not depreciated				
Land	\$ 220,409	\$ -	\$ -	\$ 220,409
Total capital assets not depreciated	<u>220,409</u>	<u>-</u>	<u>-</u>	<u>220,409</u>
Capital assets depreciated				
Buildings	4,949,532	-	41,800	4,907,732
Land improvements	1,261,944	-	-	1,261,944
Furniture and equipment	3,956,714	268,498	116,920	4,108,292
Total capital assets depreciated	<u>10,168,190</u>	<u>268,498</u>	<u>158,720</u>	<u>10,277,968</u>
Total capital assets	<u>10,388,599</u>	<u>268,498</u>	<u>158,720</u>	<u>10,498,377</u>
Less accumulated depreciation for:				
Buildings	962,637	125,733	41,800	1,046,570
Land improvements	683,064	38,147	-	721,211
Furniture and equipment	2,943,048	302,053	114,641	3,130,460
Total accumulated depreciation	<u>4,588,749</u>	<u>465,933</u>	<u>156,441</u>	<u>4,898,241</u>
Capital assets, net	<u>\$ 5,799,850</u>	<u>\$ (197,435)</u>	<u>\$ 2,279</u>	<u>\$ 5,600,136</u>

Note 17 - Accounts Payable and Other Accruals:

Payables at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Accounts Payable		
Contractual	\$ 56,548	\$ 47,383
Travel/moving costs	10,601	20,010
Office	13,512	22,741
Marketing	8,122	13,524
Maintenance	6,838	14,675
Capital assets	-	-
Cost of issuance	230,230	18,090
General	1,320	5,176
Prepaid sales	191,877	318,700
Excise/unemployment tax	8,141	8,075
Materials/tools	147,481	388,664
	<u>674,670</u>	<u>857,038</u>
Other Liabilities		
Amount held for SD Homebuilders Association	950,000	950,768
Accrued vacation	581,348	552,833
Accrued payroll/taxes	-	30,042
Pension liability	-	587,507
Employee withholdings	19,829	16,393
EMAP payable	-	(2,976)
Servicing fee	83,293	73,636
Arbitrage payable	13,696	22,182
	<u>2,322,836</u>	<u>3,087,423</u>
Total accounts payable and other liabilities		
	<u>2,322,836</u>	<u>3,087,423</u>
Current liabilities	<u>1,372,836</u>	<u>1,549,148</u>
Noncurrent liabilities	<u>\$ 950,000</u>	<u>\$ 1,538,275</u>

#



South Dakota Housing
Development Authority
Required Supplementary Information
June 30, 2018

Schedule of Authority's Contributions

As of June 30, 2018

South Dakota Retirement System

Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 192	\$ 201	\$ 198	\$ 178	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>192</u>	<u>201</u>	<u>198</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 3,207	\$ 3,351	\$ 3,347	\$ 3,004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	5.99%	6.00%	6.00%	6.00%						

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Authority's Proportionate Share of the Net Pension Liability (Asset)

As of June 30, 2018

	South Dakota Retirement System									
	Last 10 Fiscal Years *									
	(Dollar amounts in thousands)									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Authority's proportion of the net pension liability (asset)	0.164311%	0.173927%	0.162348%	0.153799%	%	%	%	%	%	%
Authority's proportionate share of net pension liability (asset)	\$ (15)	\$ 588	\$ (689)	\$ (1,108)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 3,338	\$ 3,347	\$ 3,004	\$ 2,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.45%	17.57%	-22.94%	-40.14%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	97%	104%	107%						

* The amounts presented were determined as of the plan's measurement date, which is one year prior to the Authority's fiscal year end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Changes of Benefit Terms:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition exists this year and limits the maximum COLA payable in 2018 to 1.89%.

Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items,
- Expand the caps on increases in Compensation considered in Final Average Compensation,
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period, and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry into SDRS.

Changes of Assumptions:

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for the June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant, and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5% and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

The Actuarial Asset Valuation Method was changed to the Fair Value of Assets. In addition, the Funding Method was changed from the Frozen Entry Age Actuarial Cost Method to the Entry Age Actuarial Cost Method, which was in use for GASB Statement Nos. 67 and 68 purposes.



South Dakota Housing Development Authority

Supplementary Information
June 30, 2018

Supplemental Schedule of Net Position

As of June 30, 2018

	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Risk Sharing Bonds	Combined Total
Assets							
Current Assets							
Cash and cash equivalents	\$ 12,522,066	\$ 192,104,344	\$ 9,363,317	\$ 1,276,608	\$ 1,278,866	\$ -	\$ 216,545,201
Investment securities - other	1,162,390	87,809,349	5,222,289	8,153,399	284,037	-	102,631,464
Investments - program mortgage-backed securities	-	68,591,059	10,022	-	-	-	68,601,081
Mortgage loans receivable, net	3,974,199	29,328,025	12,329,431	1,927,594	-	-	47,559,249
Multifamily mortgage securities	-	-	-	-	632,908	-	632,908
Interest receivable	175,681	3,600,311	397,708	578,974	1,933	-	4,754,607
Other receivables	1,253,674	-	-	-	-	-	1,253,674
Other assets	2,603,223	-	-	-	-	-	2,603,223
Hedging derivatives	-	3,443,051	-	-	-	-	3,443,051
Total Current Assets	21,691,233	384,876,139	27,322,767	11,936,575	2,197,744	-	448,024,458
Noncurrent Assets							
Investment securities - other	3,431,440	206,774,163	5,104,382	52,037,497	-	-	267,347,482
Investments - program mortgage-backed securities	-	515,162,634	75,273	-	-	-	515,237,907
Mortgage loans receivable, net	79,162,619	214,629,365	90,543,553	14,176,256	-	-	398,511,793
Multifamily mortgage securities	-	-	-	-	20,208,516	-	20,208,516
Line of credit receivable	-	42,910,616	-	-	-	-	42,910,616
Other receivables	14,911	616,179	-	-	-	-	631,090
Furniture and equipment, net	494,314	-	-	276,066	-	-	770,380
Building, net	160,893	-	-	3,622,904	-	-	3,783,797
Land Improvement, net	29,487	-	-	474,220	-	-	503,707
Land	220,409	-	-	-	-	-	220,409
Due from (to) other funds	(8,428,399)	12,586,617	(3,305,424)	(843,794)	(9,000)	-	-
Total Noncurrent Assets	75,085,674	992,679,574	92,417,784	69,743,149	20,199,516	-	1,250,125,697
Total Assets	96,776,907	1,377,555,713	119,740,551	81,679,724	22,397,260	-	1,698,150,155
Deferred Outflow of Resources							
Loss on refunding	-	3,214,737	-	176,145	-	-	3,390,882
Forward contracts	-	112,167	-	-	-	-	112,167
Swaps	-	-	-	64,017	-	-	64,017
Related to pensions	1,615,841	-	-	-	-	-	1,615,841
Total Assets and Deferred Outflow of Resources	\$ 98,392,748	\$ 1,380,882,617	\$ 119,740,551	\$ 81,919,886	\$ 22,397,260	\$ -	\$ 1,703,333,062

(continued on next page)

Supplemental Schedule of Net Position

As of June 30, 2018

	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Risk Sharing Bonds	Combined Total
Liabilities							
Current Liabilities							
Bonds payable	\$ -	\$ 32,797,999	\$ 5,750,000	\$ 1,390,000	\$ -	\$ -	\$ 39,937,999
Accrued interest payable	-	4,292,363	609,923	74,236	16,870	-	4,993,392
Accounts payable and other liabilities	1,275,847	59,172	24,121	13,696	-	-	1,372,836
Multifamily escrows and reserves	5,451,552	-	-	-	225,960	-	5,677,512
Total Current Liabilities	6,727,399	37,149,534	6,384,044	1,477,932	242,830	-	51,981,739
Noncurrent Liabilities							
Bonds payable	-	1,006,855,806	109,450,693	16,175,000	21,800,000	-	1,154,281,499
Accounts payable and other liabilities	950,000	-	-	-	-	-	950,000
Hedging derivatives	-	112,167	-	64,017	-	-	176,184
Total Noncurrent Liabilities	950,000	1,006,967,973	109,450,693	16,239,017	21,800,000	-	1,155,407,683
Total Liabilities	7,677,399	1,044,117,507	115,834,737	17,716,949	22,042,830	-	1,207,389,422
Deferred Inflow of Resources							
Gain on refunding	-	1,473,125	-	-	-	-	1,473,125
Swaps	-	3,443,051	-	-	-	-	3,443,051
Related to pensions	357,265	-	-	-	-	-	357,265
Total Liabilities and Deferred Inflow of Resources	8,034,664	1,049,033,683	115,834,737	17,716,949	22,042,830	-	1,212,662,863
Net Position							
Net investment in capital assets	905,103	-	-	(1,811,810)	-	-	(906,707)
Restricted for pension benefits	1,273,487	-	-	-	-	-	1,273,487
Restricted by statute	10,415,020	-	-	-	-	-	10,415,020
Restricted by bond indentures	-	331,848,934	3,905,814	66,014,747	354,430	-	402,123,925
Restricted by HOME and NSP Program	77,764,474	-	-	-	-	-	77,764,474
Total Net Position	90,358,084	331,848,934	3,905,814	64,202,937	354,430	-	490,670,199
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 98,392,748	\$ 1,380,882,617	\$ 119,740,551	\$ 81,919,886	\$ 22,397,260	\$ -	\$ 1,703,333,062

Supplemental Schedule of Operations and Changes in Net Position

For the Year Ended June 30, 2018

	General Operating Account	Homeownership Mortgage Bonds	Single Family Mortgage Bonds	Multiple Purpose Bonds	Multifamily Housing Revenue Bonds	Multifamily Risk Sharing Bonds	Combined Total
<i>Operating Revenues</i>							
Interest income on mortgage loans and guaranteed mortgage securities	\$ 193,910	\$ 13,906,793	\$ 4,905,193	\$ 882,525	\$ 308,633	\$ 99,608	\$ 20,296,662
Earnings on investments and program mortgage-backed securities	140,693	18,462,983	356,657	1,174,747	(3,349)	(55,021)	20,076,710
Net decrease in fair value of investments and program mortgage-backed securities	(54,470)	(22,830,832)	(115,133)	(994,583)	393	-	(23,994,625)
HUD contributions	31,430,639	-	-	-	-	-	31,430,639
Fee, grant and other income	5,756,745	171,517	-	-	-	-	5,928,262
<i>Total Operating Revenues</i>	37,467,517	9,710,461	5,146,717	1,062,689	305,677	44,587	53,737,648
<i>Operating Expenses</i>							
Interest	-	24,133,390	3,813,681	650,232	272,750	103,505	28,973,558
Housing assistance payments	23,541,235	-	-	-	-	-	23,541,235
Servicer fees	-	754,620	337,243	-	-	-	1,091,863
Arbitrage rebate expense (benefit)	-	-	-	(8,486)	-	-	(8,486)
General and administrative	5,032,251	778,681	4,681	299,721	50,640	12,343	6,178,317
Bond financing costs	-	3,867,815	25,000	56,000	-	-	3,948,815
Other housing programs	6,039,893	-	-	594,377	-	-	6,634,270
Provision for loan loss	1,071,760	255,652	(7,757)	-	-	-	1,319,655
<i>Total Operating Expenses</i>	35,685,139	29,790,158	4,172,848	1,591,844	323,390	115,848	71,679,227
<i>Net Income Before Interfund Transfers</i>	1,782,378	(20,079,697)	973,869	(529,155)	(17,713)	(71,261)	(17,941,579)
<i>Interfund Transfers</i>	1,380,154	(777,218)	-	(602,936)	-	-	-
<i>Changes in Net Position</i>	3,162,532	(20,856,915)	973,869	(1,132,091)	(17,713)	(71,261)	(17,941,579)
<i>Net Position, Beginning of Fiscal Year</i>	87,195,552	352,705,849	2,931,945	65,335,028	372,143	71,261	508,611,778
<i>Net Position, End of Fiscal Year</i>	\$ 90,358,084	\$ 331,848,934	\$ 3,905,814	\$ 64,202,937	\$ 354,430	\$ -	\$ 490,670,199

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
2015 Series ABC	4/30/2015	various	\$ 38,482	\$ -	\$ 38,482
2016 Series DEF	11/15/2016	various	53,295,364	-	53,295,364
2017 Series ABC	6/15/2017	various	34,618,612	-	34,618,612
2018 Series A	6/19/2018	various	81,280,486	-	81,280,486
			<u>\$ 169,232,944</u>		

TABLE II

Type of Home Financed with Outstanding Homeownership Mortgage Loans

Type of Home	Number of Homes
Single Family Detached	95.26%
Single Family Townhouse/Condominium	2.75%
Two-Four Unit	0.50%
Modular-Manufactured	1.49%
	<u>100.00%</u>

TABLE III

Outstanding Step Homeownership Mortgage Loans

Years Outstanding	Number	Principal Amount
1	-	\$ -
2	-	-
3	-	-
4	-	-
5 or more	344	16,562,238
Total	<u>344</u>	<u>\$ 16,562,238</u>

TABLE IV

Outstanding Homeownership Mortgage Loans

Interest Rate	Outstanding Number	Outstanding Principal Amount	Interest Rate	Outstanding Number	Outstanding Principal Amount
3.750%	2	\$ 261,854	6.850%	23	\$ 761,341
4.125%	7	506,059	6.875%	1	16,418
4.375%	1	158,886	6.890%	9	241,756
4.500%	57	4,673,986	6.900%	14	495,606
4.600%	1	62,093	6.950%	54	1,924,783
4.625%	2	130,813	7.050%	1	17,570
4.750%	689	42,146,455	7.110%	43	1,415,027
4.850%	66	5,631,893	7.125%	2	120,307
4.950%	708	41,867,933	7.250%	46	840,713
5.000%	30	2,233,919	7.300%	23	486,293
5.125%	123	8,249,365	7.360%	6	181,236
5.150%	153	9,466,689	7.400%	19	682,465
5.250%	281	18,764,703	7.450%	7	270,314
5.375%	153	10,932,580	7.550%	8	282,401
5.425%	19	1,357,449	7.600%	9	227,362
5.450%	14	822,244	7.625%	14	116,529
5.500%	463	29,640,584	7.650%	2	117,344
5.625%	41	3,114,014	7.875%	1	6,239
5.750%	68	4,411,269	7.950%	15	297,990
5.850%	88	6,682,481	8.100%	1	16,454
5.950%	456	19,450,232	8.125%	2	11,576
6.000%	96	4,846,337	8.180%	3	7,603
6.125%	17	1,400,445	8.250%	3	12,986
6.150%	6	407,330	8.375%	7	45,070
6.250%	37	1,886,052	8.500%	8	34,106
6.375%	4	387,243	8.540%	2	4,149
6.400%	28	939,275	8.625%	1	4,546
6.450%	22	585,101	8.750%	2	6,536
6.500%	209	6,680,556	8.850%	2	3,004
6.600%	4	79,532	8.900%	2	6,538
6.625%	5	343,983	9.100%	1	3,593
6.650%	62	1,249,231			
6.750%	41	676,097			
				4,284	\$ 238,704,538

TABLE V

Type of Mortgage Insurance for Outstanding Homeownership Mortgage Loans

Insurer or Guarantor	Percent of Principal Amount
FHA	32.05%
VA	4.45%
USDA Rural Development	40.53%
Private Mortgage Insurance	
Mortgage Guaranty Insurance Company	7.14%
Genworth	1.51%
PMI	0.32%
United Guaranty Insurance	0.73%
CMG Mortgage Insurance Company	0.22%
Total PMI Insured Mortgage Loans	9.92%
Total Insured Mortgage Loans	86.95%
Uninsured	13.05%
Total All Mortgage Loans	100.00%

TABLE VI

Servicers of Outstanding Homeownership Mortgage Loans

Servicer	Principal Amount
Great Western	\$ 166,100,550
Bankwest	6,671,886
CorTrust Mortgage	54,891,436
First Bank & Trust	10,982,984
CU Mortgage	57,682
	\$ 238,704,538

TABLE VII

Homeownership Mortgage Loan Delinquencies and Foreclosures

	Homeownership Program		NIBP Program	
	As of 6/30/2018	As of 6/30/2017	As of 6/30/2018	As of 6/30/2017
31-60 Days (one payment) Delinquent	4.41%	4.63%	4.52%	5.02%
61-90 Days (two payments) Delinquent	0.79%	1.25%	0.82%	0.86%
91 Days or More (three or more payments) Delinquent	0.94%	1.35%	0.42%	0.93%
Total Delinquent	6.14%	7.23%	5.76%	6.81%
In Foreclosure	1.54%	1.65%	1.73%	2.23%

Table VIII

Valuation of Assets

Value of Principal Assets of Homeownership Program	\$ 1,325,453,756
Amount of Outstanding Homeownership Bonds	\$ 1,019,326,094
Parity Calculation	130.03%
Parity Requirement	102.00%
Value of Principal Assets of Single Family Program	\$ 125,982,753
Amount of Outstanding Single Family Bonds	\$ 114,310,000
Parity Calculation	110.21%
Parity Requirement	100.00%

Table IX

**Special Program Fund of the Authority
Special Program Fund**

Homeownership Program	\$ 171,686,035
Single Family Program	\$ -
Multi Purpose Program	\$ 51,471,173

Table X

Description of Multifamily Developments

Loans and Developments securing the Outstanding Multiple Purpose Bonds as of June 30, 2018:

Development	Location	Number of Units	Twelve Month Occupancy Average (2)	Initial Loan Amount	Current Loan Amount (3)	Interest Rate	Preservation Loans	
							Amount (3)	Interest Rate
Old Main	Canton	26	NA %	\$ 428,062	\$ -	0.00 %	\$ -	%
Sagewood	Yankton	10	NA	227,825	-	0.00	-	-
South Sycamore Estates	Sioux Falls	16	NA	695,690	312,344	0.00	-	-
Edmonton Heights	Gregory	16	NA	524,000	-	0.00	308,598	3.00
Pheasant Valley Courtyard	Milbank	60	89.6	1,556,000	986,805	5.00	-	-
Homestead Heights	Bison	16	NA	355,400	-	0.00	-	-
JARD Apartments	Sisseton	16	100.0	343,960	-	0.00	-	-
Canterbury House	Sioux Falls	50	98.7	1,278,200	7,005	6.06	-	-
Lynlo Heights	Armour	20	NA	462,900	-	0.00	218,000	3.00
The Lidi	Tyndall	24	100.0	493,500	-	0.00	-	-
Huey Apartments	Sioux Falls	46 (1)	NA	1,390,000	-	0.00	-	-
Bi-Centennial Apts	Aberdeen	48	99.9	1,026,244	-	0.00	-	-
Grandview Apartments	Mitchell	34	96.6	734,500	-	0.00	-	-
Heritage Estates II	Brookings	44	71.4	912,000	-	0.00	-	-
Prairie View	Madison	25 (1)	65.0	576,000	-	0.00	-	-
Maplewood Townhouses	Rapid City	50	92.8	2,859,100	216,267	6.78	-	-
Canyon Ridge	Yankton	60	93.3	1,575,600	110,172	6.78	-	-
Lombardi Courts	Mitchell	30	77.2	977,500	-	0.00	-	-
Fifth Avenue South	Aberdeen	50	100.0	1,400,000	182,272	6.78	-	-
Woodland Hills	Sioux Falls	32	89.1	1,100,000	101,432	6.78	-	-
The Evans	Hot Springs	86 (1)	84.0	3,094,600	467,863	6.78	1,000,000	2.50
Dakota Square	Aberdeen	55	91.1	1,730,300	205,614	8.50	123,244	2.50
Majestic View Townhouses	Hot Springs	20	87.5	596,630	-	0.00	324,311	4.25
Seneschal Apts	Philip	16	89.6	520,000	-	0.00	132,814	2.25
Riverview Townhouses	Philip	10	93.3	320,000	-	0.00	208,735	3.85
Gateway I Apts	Kadoka	16	73.9	479,000	-	0.00	-	-
The Sherman	Aberdeen	51	99.0	1,950,000	441,622	8.50	-	-
Presho Courts	Presho	15	18.9	439,000	1,000	0.00	-	-
Parkview Apts	Madison	28	76.8	890,000	148,759	8.50	30,000	2.00
Oakwood Apts	Vermillion	28	89.9	890,000	132,230	8.50	-	-
Arthur Courts	Redfield	16	84.4	510,000	-	0.00	-	-
Terrawood Townhouses	Sioux Falls	4	100.0	100,900	-	0.00	-	-
Beadle Plaza	Sioux Falls	44	NA	1,353,096	-	0.00	-	-
St. Cloud Apts	Rapid City	16 (1)	98.4	562,000	-	0.00	-	-
Gateway II Apts	Kadoka	14	78.0	463,800	-	0.00	-	-
Grand Valley Apts	Newell	12	98.6	368,600	107,535	3.00	-	-
Sir Charles	Yankton	34	94.6	1,184,200	-	0.00	71,964	3.60
Timberland	Lead	24	93.0	85,300	-	0.00	1,046,906	3.75-5.00
Collins Apts	Sioux Falls	23	88.4	670,000	150,304	9.65	-	-
Baha Townhouses	Sioux Falls	21	95.6	778,900	184,470	9.65	-	-
Hospitality Apts	Sioux Falls	22	54.0	461,599	132,099	9.65	-	-
Whiting Court	Yankton	17	79.4	601,284	-	0.00	-	-
Prairie West	Lemmon	24	68.8	630,900	172,863	9.65	-	-
Sun Rise Apts	Aberdeen	27	91.7	474,500	149,177	9.65	-	-
Cedar Apts	Brookings	32	82.6	1,068,800	-	0.00	-	-
The Lidi II	Tyndall	10 (1)	88.3	255,000	65,070	9.65	-	-
Gold Mountain Apt.	Lead	20	96.3	272,490	234,951	9.65	178,567	0.00
Calypso Court	Chamberlain	16	83.3	550,000	-	0.00	-	-
Riverview Park	Sioux Falls	50	93.2	1,873,700	-	0.00	-	-
Olive Grove Apts	Sioux Falls	19	97.8	601,271	-	0.00	-	-
Sunnycrest	Sioux Falls	222	97.3	7,320,000	6,148,940	3.55 - 4.65	-	-
				<u>\$ 50,012,351</u>	<u>\$ 10,658,794</u>		<u>\$3,643,139</u>	

(1) One unit, or in the case of Huey Apartments and The Lidi II, two units, are not the subject of housing assistance payments under the Section 8 Program.

(2) Occupancy rate for the twelve month period ending June 30, 2018.

(3) Amounts are balances as of June 30, 2018.

Table XI

Liquidity Providers

The following table sets forth certain information relating to liquidity providers for variable interest rate bonds issued and outstanding as of June 30, 2018.

<u>Series of Bonds</u>	<u>Liquidity Provider</u>	<u>Liquidity Provider Rating (Moody's/S&P)</u>	<u>Expiration Date</u>	<u>Bonds Outstanding</u>
2015 Series C	The Authority	Aa3/NR	11/1/2045	\$ 30,000,000.00

Table XII

Outstanding Guaranteed Mortgage Securities as of June 30, 2018

<u>Pass Through Rate</u>	<u>Principal Amount</u>	<u>Pass Through Rate</u>	<u>Principal Amount</u>
1.925	\$ 76,706	3.150	\$ 3,394,464
2.000	31,235,188	3.175	7,696,585
2.025	1,622,102	3.250	1,082,808
2.030	122,280	3.275	8,709,726
2.050	79,266	3.300	2,993,144
2.175	1,478,633	3.375	385,212
2.232	22,191	3.400	539,843
2.250	6,360,187	3.425	9,826,154
2.275	2,653,273	3.500	61,740,479
2.280	758,329	3.525	5,714,134
2.300	10,151,717	3.550	19,874,346
2.400	634,971	3.625	126,647
2.425	11,596,589	3.650	5,094,401
2.500	123,945,874	3.675	3,331,898
2.525	3,907,840	3.775	5,274,134
2.530	359,158	3.800	2,431,479
2.550	879,623	3.875	186,538
2.625	600,279	3.900	407,539
2.650	665,323	3.925	1,186,421
2.675	4,945,003	4.000	14,121,023
2.750	5,356,434	4.050	1,031,790
2.775	3,508,009	4.175	3,651,614
2.780	106,679	4.275	104,232
2.800	7,059,482	4.300	6,522,075
2.875	167,792	4.450	107,858
2.900	1,561,550	4.500	102,436
2.925	29,402,960	4.575	165,845
3.000	169,762,448	4.625	73,325
3.025	9,601,524	5.000	67,802
3.050	8,723,466	5.250	39,822
3.125	539,429	5.500	418
			<u>\$ 603,865,497</u>