



District of Columbia Housing  
Finance Agency

Financial Statements With  
Independent Auditor's Report

Years Ended September 30, 2006 and 2005

**TCBA**

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

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INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
District of Columbia Housing Finance Agency

We have audited the accompanying basic financial statements, as listed in the table of contents, of the District of Columbia Housing Finance Agency ("the Agency"), a component unit of the District of Columbia Government, as of and for the years ended September 30, 2006 and 2005. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2007, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The combining financial statements on pages 46 through 50 are presented for purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Washington, D.C.  
January 18, 2007

*Thompson, Cobb, Bazilio & Associates, PC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of the District of Columbia Housing Finance Agency's financial performance provides an overview of the Agency's financial activities for the year ended September 30, 2006. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

### Overview

The District of Columbia Housing Finance Agency (the Agency) was established in 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, D.C. The Agency accomplishes its mission by issuing mortgage revenue bonds that lower the homebuyers' costs of purchasing and rehabilitating homes and the developers' costs of acquiring, constructing, and rehabilitating rental housing. The Agency uses Funds to account for its financial activities. The General Fund is used to record the receipt of income not directly pledged for repayment of securities, to pay expenses related to the Agency's administrative functions, and to account for grant revenues and expenditures related to Section 8 grants from the United States Department of Housing and Urban Development (HUD) and for an intra-agency agreement entered with Department of Mental Health of the District to construct or rehab rental housing to address the critical need of mentally challenged persons residing in the City. The other funds are used to account for bond proceeds and debt service related to multifamily and single family mortgage revenue bonds and to account for certificates of participation, revenues and expenses related to the Building Finance Corporation.

### Financial Highlights

The following information is an analysis of the year ended September 30, 2006.

- The Agency's net assets increased by \$1.969 million, mainly from investment earnings on operating reserves and guaranteed investment agreements as a result of a rising interest rate environment during the fiscal year. A decline of \$ 4.220 million in unrealized fair market value adjustments which was recognized in prior years weighed negatively in this fiscal year's financial performance.
- Bonds issued increased by \$439.567 million as a result of the issuance of \$183.865 million in multifamily revenue bonds of which \$112.322 million was draw-down series, and of the \$359.905 million in single family issuances, \$272.855 million was draw-down series. In the aggregate, a total of \$49.204 million in bonds were redeemed from sinking fund maturities and prepayment calls.
- Revenues for the current year is \$88.139 million which is comprised of operating revenue of \$60.197 million and investment earnings of \$27.941 million and is 17.3% higher than last year, while operating expenses for the current year is \$85.903 million which is 18.9% over last year. In FY 2006, decline in interest earned on mortgage-backed securities of the single family bond program as a result of prepayments of mortgages contributed to a decrease in operating revenues of the single family bond program by 32.2% compared to FY 2005, however, such a decrease was made-up for by interest income earned from the two single family revenue bond series issued and the eight multifamily transactions closed in FY 2006.

**Table 1**  
**Condensed Balance Sheets**  
**September 30,**

	<u>2006</u>	<u>2005</u>
Current assets	\$ 48,895,479	\$ 42,066,905
Noncurrent assets	1,233,271,479	1,083,024,144
<b>Total Assets</b>	<u>\$1,282,166,958</u>	<u>\$1,125,091,049</u>
Current liabilities	\$ 120,367,539	\$ 54,307,821
Noncurrent Liabilities	1,072,456,225	983,408,600
<b>Total Liabilities</b>	<u>1,192,823,764</u>	<u>1,037,716,421</u>
Net assets:		
Invested in capital assets, net of related debt	<u>853,206</u>	<u>951,697</u>
Restricted for:		
Bond Fund and Risk Share Program	52,046,365	52,178,035
McKinney Act Fund	7,934,190	7,431,008
Total restricted	<u>59,980,555</u>	<u>59,609,043</u>
Unrestricted	<u>28,509,433</u>	<u>26,813,888</u>
<b>Total Net Assets</b>	<u>89,343,194</u>	<u>87,374,628</u>
<b>Total Liabilities and Net Assets</b>	<u>\$1,282,166,958</u>	<u>\$1,125,091,049</u>

**Table 2**  
**Condensed Statements of Revenues, Expenses,**  
**and Changes in Net Assets**  
**Years Ended September 30,**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Mortgage-backed security income	\$ 6,726,493	\$ 8,293,054
Interest on mortgage and construction loans	19,784,506	18,679,962
McKinney Act revenue	500,137	537,170
Application and commitment fees	124,543	90,729
HUD Section 8 housing assistance receipts	12,534,868	12,727,925
Service project receipts	7,192,215	7,048,178
Other	13,334,407	13,712,861
Total operating revenues	<u>60,197,169</u>	<u>61,089,879</u>
<b>Operating Expenses</b>	<u>85,902,969</u>	<u>72,241,861</u>
<b>Operating Loss</b>	<u>(25,705,800)</u>	<u>(11,151,982)</u>
Non-operating revenues	27,941,420	13,818,205
Extraordinary item – loss on extinguishment of debt	(267,054)	(83,926)
<b>Change in Net Assets</b>	<u>\$ 1,968,566</u>	<u>\$ 2,582,297</u>

## **New Business**

During fiscal year 2006, the Agency re-entered into the single family bond program of issuing tax-exempt bonds to make funds available to the residents of the District to purchase residences at favorable below market interest rate. Following this, the agency has made \$42 million in lendable money in FY 2006 and has assisted 67 residents of the district to be homeowners through September 30, 2006. The Agency, in its endeavor to address housing shortages in the District, was successful in effectively leveraging and strategically directing the investment of public and private funds into target communities. This resulted in Agency's financing a total of 1,165 units of affordable new, ownership and rehabilitated rental housing community investment of \$71.543 million in tax-exempt bonds. The Agency's satellite office east of the river at 4415 South Capitol Street, SW counseled over 2,000 clients citywide as part of its Single Family Homeownership Program. The Agency is resolute in refining its internal capacity to keep-up with its strong credit position in the financial markets.

## **Debt Administration**

The Agency's outstanding debt increased by 12% over the prior year. In fiscal year 2006, the Agency issued \$71.543 million in multifamily revenue bonds to finance the construction and rehabilitation of eight projects. 1,165 rental units will be made available upon completion of these projects. The Agency also issued \$42 million in single family tax-exempt bonds to be lent for purchase of single family residences during fiscal year 2006.

The Agency redeemed \$15.916 million in multifamily revenue bonds and \$33.178 million in single family revenue bonds. The Agency also redeemed \$54.993 million and \$322.065 million in drawdown bonds of multifamily and single family respectively.

## **Capital Assets**

The Agency issued \$2.4 million of Certificates of Participation in 1998 to finance the acquisition of the building at 815 Florida Avenue, N.W., Washington, D.C. and entered into a lease agreement with the D. C. Building Finance Corporation to lease the office space. The lease term is through June 2018, however, the Agency has an annual right to terminate the lease in the event that the Agency fails to appropriate sufficient amounts due under the lease terms for the ensuing fiscal year. The Agency has the option to purchase the building at any time during the lease at an amount necessary to discharge the Certificates. As of September 30, 2006, the lease agreement has approximately thirteen years remaining, and an outstanding balance of \$1.640 million of Certificates of Participation. The Agency redeemed \$0.110 million of Certificates of Participation in fiscal year 2006.

## **Programs**

Multifamily: In fiscal year 2006, the DCHFA financed over 1,165 rental units, of which 238 units are new housing. While 342 units will be for seniors, 583 units will be occupied by households earning less than 50% of the area median income.



Single Family: The Agency has started participating in the single-family mortgage program and as result of which 67 residents of the District have become homeowners in FY 2006 and the Agency projects to make \$100 million available in tax-exempt funds to be used for originating loans in FY 2007.

## **Section 8 HAP Contract Administration**

The Agency has entered into a contractual agreement with the United States Department of Housing & Urban Development (HUD) to administer Section 8 Housing Assistance Payments for eleven projects. The HFA earned \$389,990 in contract administration fees during fiscal year 2006.

## **HUD Risk-Sharing Program**

The Agency has also entered into a risk-sharing agreement with HUD, where a multifamily project is insured by the Federal Housing Administration (FHA) for 90% of the mortgage while 10% of the mortgage is insured by the Agency. In order to participate in this program, the Agency deposited \$500,000 in a reserve account with Merrill Lynch. With every risk-share project, an FHA placement fee of 1% of the mortgage balance is collected and deposited into the reserve account. As of September 30, 2006, the reserve account has a balance of \$1.926 million.

### **Subsequent Events:**

The following subsequent events have occurred:

- On November 9, 2006, the agency issued single family revenue bonds Series 2006 D, E & F for \$102.145 million.
- On November 12, 2006, the agency issued multifamily housing revenue bonds of \$4.13 million for Azeze Bates Apartments.
- On December 1, 2006, the Agency redeemed \$1.94 million of Multifamily Housing Refunding Revenue Bonds Series 1992A.
- On December 11, 2006, the agency issued multifamily housing revenue bonds of \$11 million for Eastgate Family.
- On December 14, 2006, the agency issued multifamily housing revenue bonds of \$10.34 million for Wesley House.
- On January 4, 2007, the agency made McKinney Act loan of \$0.35 million to Hyacinth's Place LLC.

## **Conclusion**

The above discussion and analysis is presented to provide additional information regarding the activities of the Agency and also to meet the disclosure requirements of GASB 34. If you have questions about the report or need additional financial information, contact the Chief Financial Officer, Solomon Haile, District of Columbia Housing Finance Agency, (202) 777-1620, 815 Florida Avenue, N.W. Washington DC 20001, shaile@dchfa.org or go to our website at [www.dchfa.org](http://www.dchfa.org).

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 19,938,715	\$ 24,452,142
Restricted cash and cash equivalents	22,639,768	11,814,248
Accrued interest receivable-restricted	5,795,063	5,351,817
Other receivables	521,933	448,698
Total current assets	48,895,479	42,066,905
<b>NON-CURRENT ASSETS</b>		
Other assets:		
Investments	5,712,869	4,921,181
Loans receivable	140,000	140,745
Prepays	295,837	289,922
Bond issue costs-net	15,788,823	15,615,055
Total other assets	21,937,529	20,966,903
Restricted assets:		
Cash and cash equivalents	85,361	83,151
Investments held in trust	575,826,290	484,129,631
Mortgage-backed securities at fair value	203,392,447	204,535,869
Mortgage and construction loans receivable	424,209,954	367,710,580
Loans receivable	1,899,930	1,789,129
McKinney Act funds receivable	1,598,421	804,224
Other receivables	1,828,341	302,960
Total restricted assets	1,208,840,744	1,059,355,544
Capital assets:		
Land	573,000	573,000
Depreciable property and equipment	3,481,256	3,446,238
Leasehold improvements	1,127,040	1,122,042
Less accumulated depreciation and amortization	(2,688,090)	(2,439,583)
Total capital assets	2,493,206	2,701,697
Total non-current assets	1,233,271,479	1,083,024,144
<b>TOTAL ASSETS</b>	<b>\$ 1,282,166,958</b>	<b>\$ 1,125,091,049</b>

(Continued)

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**

**BALANCE SHEETS**

**SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 943,881	\$ 791,334
Accrued salary and vacation payable	302,207	292,129
Deferred revenue	829,818	739,009
Current portion of bonds payable	33,315,000	4,000,000
Current portion of certificates of participation	115,000	110,000
Total current liabilities	<u>35,505,906</u>	<u>5,932,472</u>
<b>CURRENT LIABILITIES PAYABLE FROM</b>		
Tenant subsidy funds	851,412	618,707
Escrow deposits	3,108,368	2,704,937
Deferred credits	65,334,356	28,480,594
Deferred revenue	4,781,573	6,130,090
Interest payable	10,785,924	10,441,021
Total current liabilities payable from restricted	<u>84,861,633</u>	<u>48,375,349</u>
<b>NON-CURRENT LIABILITIES</b>		
Loans payable	463,929	465,884
Bonds payable—less current portion	1,070,467,296	981,302,716
Certificates of participation—less current portion	1,525,000	1,640,000
Total non-current liabilities	<u>1,072,456,225</u>	<u>983,408,600</u>
Total liabilities	<u>1,192,823,764</u>	<u>1,037,716,421</u>
<b>NET ASSETS</b>		
Invested in capital assets—net of related debt	<u>853,206</u>	<u>951,697</u>
Restricted for:		
Bond Fund and Risk Share	52,046,365	52,178,035
McKinney Act Fund	7,934,190	7,431,008
Total restricted net assets	<u>59,980,555</u>	<u>59,609,043</u>
Unrestricted net assets	<u>28,509,433</u>	<u>26,813,888</u>
Total net assets	<u>89,343,194</u>	<u>87,374,628</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,282,166,958</u></u>	<u><u>\$ 1,125,091,049</u></u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Mortgage-backed security income	\$ 6,726,493	\$ 8,293,054
Interest on mortgage and construction loans	19,784,506	18,679,962
McKinney Act revenue	500,137	537,170
Application and commitment fees	124,543	90,729
HUD Section 8 housing assistance receipts	12,534,868	12,727,925
Service project receipts	7,192,215	7,048,178
Other (Note 13)	13,334,407	13,712,861
Total operating revenues	<u>60,197,169</u>	<u>61,089,879</u>
<b>OPERATING EXPENSES</b>		
Operations	4,875,342	5,052,302
Personnel and related costs	3,801,585	3,568,871
Interest expense	53,756,296	37,534,745
Depreciation	248,507	257,111
Federal program payments	7,192,215	7,048,178
Housing assistance payments	12,534,868	12,727,925
Bond amortization	745,688	679,783
Trustee fees and other expenses	2,748,468	5,372,946
Total operating expenses	<u>85,902,969</u>	<u>72,241,861</u>
<b>OPERATING LOSS</b>	<b>(25,705,800)</b>	<b>(11,151,982)</b>
<b>NON-OPERATING REVENUES</b>		
Investment income	<u>27,941,420</u>	<u>13,818,205</u>
Excess Of Revenue Over Expenses Before Extraordinary Item	2,235,620	2,666,223
Extraordinary Item - Loss On Extinguishment Of Debt	<u>(267,054)</u>	<u>(83,926)</u>
Change In Net Assets	1,968,566	2,582,297
Net Assets, Beginning Of Year	87,374,628	84,792,331
Net Assets, End Of Year	<u>\$ 89,343,194</u>	<u>\$ 87,374,628</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>		
Cash receipts from loans and interest	\$ 64,825,827	\$ 37,270,289
Other cash receipts	9,685,754	13,018,229
Cash payments to vendors	(4,496,414)	(1,661,173)
Cash payments to employees	(3,791,507)	(3,568,871)
Receipts of federal program income	19,727,083	19,851,532
Payments of federal program expenses	(19,724,125)	(19,776,102)
Other cash payments	(1,777,686)	(9,589,236)
Net Cash Provided by Operating Activities	<u>64,448,932</u>	<u>35,544,668</u>
<b>Capital and Related Financing Activities</b>		
Acquisition of fixed assets	(40,017)	(68,699)
Payments of bonds and long-term debt	(110,000)	(105,000)
Payments of interest and charges	(91,875)	(96,968)
Net Cash Used in Capital and Financing Activities	<u>(241,892)</u>	<u>(270,667)</u>
<b>Non-Capital Financing</b>		
Funds disbursed for multi-family rehab	(2,082,275)	(36,359,283)
Proceeds from long-term bonds	559,366,574	167,290,000
Payments of long-term debt	(441,997,238)	(59,354,352)
Interest paid on bonds	(53,399,464)	(36,036,275)
Net Cash Provided by Non-Capital Financing Activities	<u>61,887,597</u>	<u>35,540,090</u>
<b>Investing Activities</b>		
Receipts of interest and dividends	27,934,700	12,541,973
Principal payments (purchases) on mortgage and construction loans	(60,901,205)	14,468,398
Sale of investments and mortgage-backed securities	703,162,821	481,062,632
Purchase of investments and mortgage-backed securities	(789,976,650)	(570,583,552)
Net Cash Used in Investing Activities	<u>(119,780,334)</u>	<u>(62,510,549)</u>
NET INCREASE IN CASH	6,314,303	8,303,542
Cash and cash equivalents at October 1	36,349,541	28,045,999
Cash and cash equivalents at September 30	<u>\$ 42,663,844</u>	<u>\$ 36,349,541</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating loss	\$ (25,705,800)	\$ (11,151,982)
Interest expense	53,669,596	37,534,745
Depreciation	574,127	257,111
Bad debt expense	-	6,740
Miscellaneous non-operating revenue	-	30,872
Decrease (increase) in assets		
Receivables	(1,106,823)	1,166,029
Other current assets	437,570	1,850,820
Loans receivables	745	(104,340)
Increase (decrease) in liabilities		
Payables	152,546	5,067,346
Accrued liabilities	10,078	(33,694)
Deferred revenue and credits	35,596,054	(136,317)
Escrow deposits	403,431	445,222
Current liabilities and changes in mortgage loans	417,408	612,116
Net cash provided by operating activities	<u>\$ 64,448,932</u>	<u>\$ 35,544,668</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 1: ORGANIZATION AND PURPOSE**

The District of Columbia Housing Finance Agency (the Agency) was created as a corporate body which has a legal existence separate from the Government of the District of Columbia (the District) but which is an instrumentality of the District, created to effectuate certain public purposes. The Agency is empowered to, among other activities, generate funds from public and private sources to increase the supply and lower the cost of funds available for residential mortgages and notes and for the construction of permanent multi-family rental properties.

In 1991, the Governmental Accounting Standards Board issued Statement No. 14, *The Financial Reporting Entity*. The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Agency considered whether its officials appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Agency. The Agency also considered whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the Agency.

The Agency is included in the District's Comprehensive Annual Financial Report as a Discretely Presented Component Unit.

The Agency established the District of Columbia Building Finance Corporation (the Building Corporation) as a nonprofit corporation under the laws of the District of Columbia in July 1998. The Building Corporation's financial transactions are included as a separate fund of the Agency.

The bonds issued by the Agency and the Corporation are payable principally from repayments of mortgage loans financed by or purchased from the proceeds of such bonds and are not a debt of the Agency or the District. Neither the faith and credit nor the taxing power of the District is pledged for the repayment of the bonds.

The following is a summary of significant accounting policies:

**Basis of Accounting** – For financial reporting purposes only, the Agency is a component unit of the District of Columbia Government. The Agency's operations are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. The Agency's financial activities are recorded in funds, each of which represents a separate accounting entity. The Agency uses the accrual method of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a description of the funds maintained by the Agency:

**General Fund** - The General Fund is used to record the receipt of income not directly pledged for repayment of securities, to pay expenses related to the Agency's administrative functions, and to account for grant revenues and expenditures related to the Section 8A grants from HUD.

**Multi-Family Program Fund** - The Multi-Family Program Fund is used to account for the proceeds of multi-family mortgage revenue bond issues, investments held pursuant to the indenture authorizing the issuance of the bonds, the debt service requirements on the bonds, and the related mortgage loan financing for newly constructed or rehabilitated multi-family rental housing in the District of Columbia.

**Single-Family Program Fund** - The Single-Family Program Fund is used to account for the proceeds of single-family mortgage revenue bond issues, investments held pursuant to the indenture authorizing the issuance of the bonds, the debt service requirements on the bonds, and debt service collected from mortgage loans purchased for the financing of owner-occupied single-family residences in the District of Columbia.

**D.C. Building Finance Corporation Fund** - The D.C. Building Finance Corporation Fund is used to account for the lease and Certificates of Participation issued by the Agency to finance the purchase of a building.

**Investments** - Investments of the General Fund are made in accordance with the Agency's investment policy, which generally includes instruments issued or secured by the United States Government or covered by Federal insurance programs. These funds have been designated for use by the Agency for mortgage insurance premiums, maintenance costs related to federal financial assistance programs, and other contingencies.

Investments in the other funds consist of those permitted by the respective trust indentures adopted by the Agency providing for the issuance of notes and bonds.

The Governmental Accounting Standards Board issued Statement No. 40, Deposit and Investment Risk Disclosures, to be implemented effective for financial statements for periods beginning after June 15, 2004. The Agency implemented GASB Statement No. 40 in fiscal year 2003.



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Mortgage-Backed Securities** - Mortgage-backed securities represent certificates issued by the Government National Mortgage Association ("Ginnie Mae") and FANNIE MAE which guarantee the receipt by the Agency's trustee of monthly principal and interest from mortgages originated under the Agency's Single-Family and Multi-Family Loan Programs.

**Mortgage and Construction Loans Receivable** - Mortgage and construction loans are carried at amounts advanced, net of collections and allowances for potential loan losses, if any. As of September 30, 2006 and 2005, no allowance for potential loan losses was necessary.

**Property, Furniture and Equipment** - Property, furniture and equipment purchases are capitalized at cost and depreciated using the straight-line method over the estimated useful lives ranging from five to seven years.

**Leasehold Improvements** - Capital improvements to leased space are recorded as leasehold improvements and amortized over the shorter of the applicable lease life or the useful life of the improvement.

**Bond Issuance Costs** - Costs related to the issuance of bonds and certificates of participation are amortized over the life of the related debt on a straight-line basis, which approximates the effective yield method, or are recognized upon early redemption of the bonds.

**Bond Discounts and Premiums** - Bond discount or premium arising from the sale of serial or term bonds is amortized using the straight-line method which approximates the effective yield method, over the life of the bond issue.

**Bond Accretion** - Interest on multiplier bonds or capital appreciation bonds (which do not pay interest during the life of the bonds) is added to the bond principal outstanding as interest is earned. The increase in value is recorded as a liability in bonds payable on the combined balance sheet and as interest expense on the combined statement of revenues, expenses and changes in net assets.

**Loan Origination and Commitment Fees** - The Agency originates single family mortgage loans and earns fees for these loan originations. The Agency also charges application and financing fees to developers and participating lenders for commitments on financing. These fees are recognized as revenue when the services have been performed.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS**

**Cash and Cash Equivalents** - The Agency's combined cash balance as of September 30, 2006, consists primarily of amounts held in trust accounts that are under the control of the Agency's trustees. Those amounts held in trust accounts and other demand deposit accounts are insured by Federal Deposit Insurance Corporation (FDIC) to the extent required by law.

\$6,228,402 (McKinney Act Savings) are restricted in nature as they are to be used to benefit very low income persons. The DCHFA Minority Contractor Loan Fund Escrow of \$49,987 and the Department of Mental Health (DMH) fund of \$10,457,170 are also restricted.

As of September 30, 2006 and 2005, the Agency's general fund had the following deposits:

	<u>2006</u>	<u>2005</u>
Insured	\$ 659,576	\$ 906,318
Collateralized:		
Collateral held by Federal Reserve in joint name	30,750,723	24,259,331
Collateral held by bank through a tri-party agreement	8,579,918	7,630,235
Corporate Bonds	250,000	-
U.S. Treasury Bills (maturing in ninety days)	2,338,766	3,470,506
Total deposits	<u>\$ 42,578,983</u>	<u>\$ 36,266,390</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The Agency does not have a formal custodial credit risk policy, but ensures that deposits with banks are fully collateralized.

**Investments – General Fund**

The Agency follows general investment guidelines approved by its Board of Directors with regard to its general fund. The policy states that investment securities shall be of investment grade rating, principal guaranteed and offer reasonable returns. The Agency adheres to the specific covenants as stipulated in the indenture of trust and other regulatory agreements of the bond programs and certificates of participation (COPs) regarding investments relating to its bond programs.

As of September 30, 2006, the Agency had the following investments relating to its general fund:

<u>Investment Type</u>	<u>Fair value of investments with maturities less than 5 years</u>	<u>Rating</u>	
Fannie Mae	\$ 836,046	AAA	13%
Corporate Bonds	491,005	A	7%
US Treasuries	5,263,254	Not Rated	80%
Total	<u>\$ 6,590,305</u>		<u>100%</u>

As of September 30, 2005, the Agency had the following investments relating to its general fund:

<u>Investment Type</u>	<u>Fair value of investments with maturities less than 5 years</u>	<u>Rating</u>	
Certificates of Deposit	\$ 388,000	Not Rated	8%
Fannie Mae	1,213,499	AAA	25%
Corporate Bonds	741,863	A-AAA	15%
Merrill Lynch - Equities Index	1,409,688	Not Rated	28%
US Treasuries	1,168,131	Not Rated	24%
Total	<u>\$ 4,921,181</u>		<u>100%</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Rated securities have a minimum of A. The Agency practices a prudent policy of staggering maturities of its investments to manage its cash flow needs and also to lessen the effect of changes in interest rates.

The Agency's investment policy stipulates that the securities be rated investment grade and that the principal be secured. As of September 30, 2006, the Agency's investments were invested in fully diversified securities. The above securities are insured, rated between medium to top and guarantee payment of principal at maturity.

The Agency uses weighted average maturity method that considers the investment's time horizons and maturities. In FY 2006, the weighted average maturity of the Agency's investment was less than a year.

**Investments – Bonds and Certificates of Participation**

As of September 30, 2006, the Agency had the following investments relating to its bonds and certificates of participation:

Investment Type	Fair Value	Less than 5 years	Maturities		Rating	
			6-10 years	over 10 years		
Guaranteed Investment Contract – I/A	\$ 265,004,183	\$ 220,201,851	\$ 12,663,375	\$ 32,138,957	Not rated	35%
Money Market Funds	298,298,315	298,298,315	-	-	AAA	38%
U.S. Treasury Bills and Strips	11,646,190	7,835,229	3,810,961	-	Not rated	1%
Ginnie Mae – Mortgage – backed securities	173,029,148	25,225,830	3,045,000	144,758,318	AAA	22%
Fannie Mae – Mortgage – backed securities	30,363,300	10,479,171	-	19,884,129	AAA	4%
<b>Total</b>	<u>\$ 778,341,136</u>	<u>\$ 562,040,396</u>	<u>\$ 19,519,336</u>	<u>\$ 196,781,404</u>		<u>100%</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

As of September 30, 2005, the Agency had the following investments relating to its bonds and certificates of participation:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 5 years</u>	<u>Maturities</u>		<u>Rating</u>	
			<u>6-10 years</u>	<u>over 10 years</u>		
Guaranteed Investment Contract – I/A	\$ 443,040,239	\$ 392,518,123	\$ 11,193,672	\$ 39,328,444	Not rated	64%
Money Market Funds	29,848,804	29,848,804	-	-	AAA	4%
U.S. Treasury Bills and Strips	11,240,587	8,588,736	2,651,851	-	Not rated	2%
Ginnie Mae – Mortgage – backed securities	183,451,710	5,418,614	1,828,979	176,204,117	AAA	27%
Fannie Mae – Mortgage – backed securities	<u>21,084,160</u>	<u>1,641,386</u>	<u>141,021</u>	<u>19,301,753</u>	AAA	<u>3%</u>
<b>Total</b>	<b><u>\$ 688,665,500</u></b>	<b><u>\$ 438,015,663</u></b>	<b><u>\$ 15,815,523</u></b>	<b><u>\$ 234,834,314</u></b>		<b><u>100%</u></b>

Investments of proceeds from bond issuances are governed by the covenants of the indenture of trust entered between the issuer (the Agency), the respective trustee and the investment agreement provider. Normally, the investment agreements are with major financial institutions under which each financial institution:

- Has indemnified the Agency from market risk and has agreed to pay a guaranteed interest rate.
- Is required to deposit qualifying securities equivalent to principal and interest with the designated trustee to indemnify the Agency.

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. Investment agreements are not rated; however, the contracts entered with major financial institutions require the institutions to notify the trustees when rating down-grades occur. If such down-grades place the securities below the agreed-upon rating, the provider is required to put up additional cash collateral as determined by the trustee to bring it to the agreed-upon rating at the time of executing the investment agreement.

Money market funds are short-term in nature and are held by trust banks for the benefit of projects. They are top rated by nationally recognized statistical rating organizations, such as Standard & Poor's and Moody's Investors Service. U.S. Treasury Strips are zero-coupon, accreted semi-annually to appreciate to the par

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

value of the strips at maturity. Fannie Mae mortgage-backed pass-through securities are top rated by Standard & Poor's and Moody's Investors Service. Though there is no explicit guarantee that Fannie Mae mortgage-backed securities are backed by the full faith and credit of the U.S. government, there is an implicit guarantee, as government-sponsored entities are created by Congress.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Guaranteed investment contracts protect the Agency from interest rate risk as stipulated in the terms of the contracts entered with the investment providers. Money market funds of the bond programs are short-term by their nature as they are to be used to meet debt service obligations and project construction or rehabilitation payments. The effect of changes in interest rate is inconsequential. U.S. Treasury Strips are highly sensitive investments, backed by the full faith and credit of the federal government. They represent \$4.745 million or 0.61% of the portfolio's investments. Ginnie Mae and Fannie Mae mortgage-backed securities are investments that are highly sensitive to changes in interest rates. Generally, when interest rates fall, mortgage borrowers tend to prepay their loans taking advantage of the lower rates through refinancing, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduces cash flow and diminishes the fair value of mortgage pass-through securities. Such securities represent \$203,392,448 or 26.13% of the portfolio's investments.

Investments of bond programs are restricted and can only be used for the benefit of the respective bond series. Bond calls made from prepayments of mortgages are not subject to any premium. In effect, prepayments resulting from refinancing are used to redeem bonds on the next debt service payment date. The effective interest rate reduction could be the difference in the rate between the mortgage rate and the investment rate from the date of prepayment to the next debt service date, which could range from two to eight months.

Investments of the bond programs are with major financial institutions under which each financial institution has insured the Agency from market risk and has agreed to pay a guaranteed interest rate. In addition, each financial institution has deposited with its trust department, in the Agency's name, qualifying securities in an amount equivalent to principal and interest.

Investments are reported at fair value in the balance sheet and changes in the fair value of investments are recognized in the statement of revenue, expenses and changes in net assets.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 4: MORTGAGE AND CONSTRUCTION LOANS RECEIVABLE**

Mortgage and construction loans receivable are secured by deeds of trust evidencing first mortgage liens on related real property. These loans are either insured by the Federal Housing Administration ("FHA"), the Veteran Administration ("VA"), or by private mortgage insurance up to a maximum of 90% of the outstanding mortgages. Both FHA and VA are U.S. Government agencies. Interest rates on these loans range from 3.65% to 9.5% and the loans have a repayment period of up to 40 years.

The Agency's Single Family Program recorded unrealized losses of \$1,608,196 and \$1,960,267 for fiscal years 2006 and 2005, respectively. The Agency's Multifamily Program recorded unrealized loss of \$2,656,109 and \$1,487,241 for fiscal years 2006 and 2005, respectively. These significant variances in fair value are caused by interest rate fluctuations and would be realized only upon sale of the securities, resulting from prepayment of mortgage loans.

Restricted mortgage and construction loans as of September 30, 2006 and 2005, were \$424,209,954 and \$367,710,580, respectively.

**NOTE 5: PROPERTY, FURNITURE AND EQUIPMENT**

Property, furniture and equipment consist of the following:

	September 30, 2005	Additions	September 30, 2006
Land	\$ 573,000	\$ -	\$ 573,000
Building	1,795,238	-	1,795,238
Furniture and equipment	1,428,329	11,768	1,440,097
Software	222,671	23,250	245,921
Total	4,019,238	35,018	4,054,256
Leasehold improvements	1,122,042	4,998	1,127,040
Total	5,141,280	40,016	5,181,296
Depreciation	(1,861,712)	(205,947)	(2,067,659)
Amortization	(577,871)	(42,560)	(620,431)
Less accumulated depreciation and amortization	(2,439,583)	(248,507)	(2,688,090)
Total Capital Assets	<u>\$ 2,701,697</u>	<u>\$ (208,491)</u>	<u>\$ 2,493,206</u>

