



District of Columbia Housing  
Finance Agency  
1996 Single Family Mortgage Revenue Bonds  
Financial Statements With  
Independent Auditor's Report  
Years Ended September 30, 2009 and 2008

**TCBA**

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**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY  
1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**

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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, the 1996 Single Family Mortgage Revenue Bonds ("the Fund"), of the District of Columbia Housing Finance Agency ("the Agency"), a component unit of the Government of the District of Columbia, as of and for the years ended September 30, 2009 and 2008. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2009 and 2008, 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.

Washington, D.C.  
March 10, 2010

*Thompson, Cobb, Bazilio & Associates, P.C.*

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2009 AND 2008**

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
<b>Unrestricted current assets:</b>		
Cash and cash equivalents	\$ -	\$ -
Other receivables	2,177	2,177
Total unrestricted current assets	<u>2,177</u>	<u>2,177</u>
<b>Restricted current assets:</b>		
Restricted cash and cash equivalents	4,788,072	2,018,357
Accrued interest receivable	1,133,302	3,733,673
Total restricted current assets	<u>5,921,374</u>	<u>5,752,030</u>
TOTAL CURRENT ASSETS	<u>5,923,551</u>	<u>5,754,207</u>
<b>NON-CURRENT ASSETS</b>		
<b>Restricted non-current assets:</b>		
Investments held in trust	25,453,919	311,073,608
Mortgage-backed securities at fair value	143,175,587	124,641,548
Bond issue costs, net	1,941,690	1,862,112
Total restricted non-current assets	<u>170,571,196</u>	<u>437,577,268</u>
TOTAL NON-CURRENT ASSETS	<u>170,571,196</u>	<u>437,577,268</u>
<b>TOTAL ASSETS</b>	<u>\$ 176,494,747</u>	<u>\$ 443,331,475</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**BALANCE SHEETS (Continued)**  
**SEPTEMBER 30, 2009 AND 2008**

<b>LIABILITIES AND NET ASSETS</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>CURRENT LIABILITIES</b>		
Current liabilities payable from restricted assets:		
Deferred credits	\$ 3,423,285	\$ 3,255,790
Deferred revenue	720,595	822,114
Interest payable	2,721,987	3,936,365
Current portion of rebate liability	351,197	-
Current portion of bonds payable	3,210,000	53,530,000
Total current liabilities payable from restricted assets	<u>10,427,064</u>	<u>61,544,269</u>
<b>NON-CURRENT LIABILITIES</b>		
Non-current liabilities payable from restricted assets:		
Rebate liability - less current portion	1,125,643	-
Bonds payable - less current portion	159,490,138	380,084,298
Due to other funds	1,069,465	1,228,832
Total non-current liabilities payable from restricted assets	<u>161,685,246</u>	<u>381,313,130</u>
<b>TOTAL LIABILITIES</b>	<u>172,112,310</u>	<u>442,857,399</u>
<b>NET ASSETS</b>		
Restricted for:		
Bond fund	4,382,437	474,076
Total restricted net assets	<u>4,382,437</u>	<u>474,076</u>
<b>TOTAL NET ASSETS</b>	<u>4,382,437</u>	<u>474,076</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 176,494,747</u>	<u>\$ 443,331,475</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Investment interest income, net of rebate	\$ 1,047,902	\$ 13,732,243
Mortgage-backed security interest income	7,104,041	6,216,263
Other	370,680	661,378
Total operating revenues	<u>8,522,623</u>	<u>20,609,884</u>
<b>OPERATING EXPENSES</b>		
General and administrative expense	189,366	176,397
Interest expense	10,561,974	17,843,227
Bond cost of issuance amortization	536,786	114,595
Trustee fees and other expenses	178,189	54,201
Total operating expenses	<u>11,466,315</u>	<u>18,188,420</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(2,943,692)</u>	<u>2,421,464</u>
<b>NON-OPERATING REVENUES/EXPENSES</b>		
Increase in fair value of mortgage-backed securities	<u>7,641,077</u>	<u>1,545,117</u>
Transfers of funds, net, as permitted by indenture	<u>(789,024)</u>	<u>(159,357)</u>
<b>CHANGE IN NET ASSETS</b>	3,908,361	3,807,224
Net assets, beginning of year	474,076	(3,333,148)
Net assets, end of year	<u>\$ 4,382,437</u>	<u>\$ 474,076</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities:</b>		
Principal and interest received on mortgage-backed securities	\$ 18,893,792	\$ 13,179,416
Purchase of mortgage-backed securities	(22,736,900)	(33,231,099)
Payments to vendors	(250,453)	(230,597)
<b>Net cash used in operating activities</b>	<u>(4,093,561)</u>	<u>(20,282,280)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Interest paid on bonds	(11,867,355)	(17,046,084)
Transfer to other funds	(948,381)	(2,726,715)
Proceeds from bond issuances	-	119,645,000
Principal payments on issued debt	(271,120,000)	(58,625,000)
Bond issuance costs	-	(375,000)
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(283,935,736)</u>	<u>40,872,201</u>
<b>Cash Flows From Investing Activities</b>		
Interest received on investments	4,948,907	12,450,784
Sale of investments	298,671,612	99,547,160
Purchase of investments	(12,773,582)	(130,672,796)
Arbitrage rebates paid	(47,925)	(43,600)
<b>Net cash provided by (used in) investing activities</b>	<u>290,799,012</u>	<u>(18,718,452)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,769,715	1,871,469
Cash and cash equivalents, beginning of year	2,018,357	146,888
Cash and cash equivalents, end of year	<u>\$ 4,788,072</u>	<u>\$ 2,018,357</u>



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**STATEMENT OF CASH FLOWS (Continued)**  
**SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of Operating Income to Net Cash Used In Operating Activities</b>		
Operating income (loss)	\$ (2,943,692)	\$ 2,421,464
Adjustments to reconcile operating income (loss) to net cash provided by ( used in ) operating activities		
Decrease (increase) in assets:		
Mortgage-backed securities	(10,892,962)	(25,941,220)
Accrued interest	2,600,371	(1,267,117)
Other receivables	(169,344)	(142,524)
(Decrease) increase in liabilities:		
Accrued interest payable	(1,214,378)	634,342
Accounts payable	167,495	(141,365)
Due to other funds	(159,357)	159,357
Rebate liability	1,476,830	-
Other payables	(91,003)	(97,334)
Amortizations		
Bond original issue discounts and premiums	(269,160)	(559,858)
Deferred bond issuance costs	536,786	114,595
Deferred revenue	(101,520)	(101,520)
Arbitrage rebates paid	47,925	43,600
Interest received on investments	(4,948,907)	(12,450,784)
Interest on bonds and short-term debt	11,867,355	17,046,084
<b>Net cash used in operating activities</b>	<u>\$ (4,093,561)</u>	<u>\$ (20,282,280)</u>

(0)

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**NOTE 1: ORGANIZATION AND PURPOSE**

The District of Columbia Housing Finance Agency (the Agency or DCHFA) 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 (GASB) 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 accompanying financial statements only include the Agency's 1996 Single Family Mortgage Revenue Bonds (the Fund). The Agency's other funds are not included. The Fund was set up to issue bonds primarily to originate or purchase single family mortgage loans and mortgage-backed securities. These financial statements do not purport to, and do not, present fairly the financial position of the District or the Agency and the changes in their respective financial positions and cash flows, in conformity with accounting principles generally accepted in the United States of America.

The Agency, as an enterprise fund, is included in the District's Comprehensive Annual Financial Report as a discretely presented component unit pursuant to GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Since the Agency prepares separate combining financial statements for all of its funds, which include the Management's Discussion and Analysis (MD&A), for inclusion in the District's Comprehensive Annual Financial Report, no separate MD&A is required in the accompanying statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**NOTE 1: ORGANIZATION AND PURPOSE (Continued)**

Within the Fund are separate accounts maintained for each obligation in accordance with the indenture terms.

The bonds and notes issued by the Fund are special obligations of the Fund payable principally from revenue and repayments of mortgage loans and mortgage-backed securities and investments, financed by or purchased from the proceeds of such bonds under the terms of the indenture and are not a debt of the District. Neither the faith and credit nor the taxing power of the District is pledged for the repayment of the bonds.

The Fund is used to account for the proceeds of single-family mortgage revenue bond issues, investments, mortgage loans and mortgage-backed securities held pursuant to the indenture terms, 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.

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

The following is a summary of the Agency's significant accounting policies:

**Basis of Accounting and Measurement Focus** - The Agency's General Fund and Revenue Obligation Funds, including the Fund, are accounted for as enterprise funds. Accordingly, the accompanying combined financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

The Agency reports its financial activities by applying Standards of the Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Agency has elected not to adopt the Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB specifically adopts the FASB Statements or Interpretations, APB Opinions, and ARB of the AICPA Committee on Accounting Procedure.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

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

The Agency has adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on the net asset use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all net assets of the Fund, are restricted as to their use as all net assets within each indenture are pledged to bondholders.

**Operating Revenues and Expenses** - The Agency distinguishes operating revenues and expenses from non-operating items in conformity with GASB Statement No. 34. Operating revenue and expenses are identified as those activities that are directly related to financing affordable housing in the District. The Fund's activities are considered to be operating except for changes in the fair value of mortgage-backed securities. Operating revenues primarily consist of interest on mortgage-backed securities, interest on mortgage loans and investment of bond proceeds, and other revenues. Operating expenses primarily consist of bond interest, amortization of bond cost of issuance, discounts and premiums, trustee, legal and financial advisory fees and other operating expenses.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of cash and money market funds and investments in highly liquid short-term instruments with original maturities of three months or less at the time of purchase.

**Investments** - Investments consist of investment agreements. Investments in the Fund consist of those permitted by the respective trust indentures adopted by the Agency providing for the issuance of notes and bonds. Investments are reported at fair value in the balance sheet and changes in the fair value of investments are recognized in the Statements of Revenues, Expenses and Changes in Net Assets as part of operating income. Investment agreements can be reasonably expected to have a fair value equal to their par value since the interest rates are guaranteed and principal can be recovered on demand and supported by the credit rating of the investment providers.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**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 or GNMA), the Federal National Mortgage Association (Fannie Mae or FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC), which guarantee the receipt by the Fund of monthly principal and interest from mortgages originated with proceeds from the bonds issued under the Fund.

These securities are stated at fair value, based on quoted market prices. These guaranteed securities are issued in connection with single family mortgage loans. Each of these securities is intended to be held to maturity or until the payoff of the related loans. The repayment and prepayments of the mortgage-backed securities are at par value based on the guarantees embedded in these securities. Mortgage-backed securities are reported at fair value on the balance sheet and changes in the fair value of mortgage-backed securities are recognized in the Statements of Revenues, Expenses and Changes in Net Assets as part of non-operating income.

**Bond Issuance Costs** - Costs related to the issuance of bonds are capitalized and amortized over the life of the related debt on a straight-line basis, which approximates the effective yield method. When the debt is redeemed early with mortgage prepayments, a proportionate share of the remaining unamortized costs is recognized as a loss in the Statements of Revenues, Expenses and Changes in Net Assets.

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

**Deferred revenue** – Deferred revenue represents funds received from non-refundable fees associated with origination of mortgage loans underlying the mortgage-backed securities under the indenture. The deferred fees are amortized over the estimated life of the mortgage-backed securities.

**Net Assets** - Net assets of the Fund are reported as restricted since their use is subject to externally imposed stipulations (such as bond covenants).

**General and Administrative and Other Expenses** – The Fund incurs ongoing general and bond issuer and administrative expenses, bond trustee fees and other costs. These expenses are recorded as they are incurred.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**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.

**New Accounting Pronouncements - Adopted**

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. This Statement was effective in March 2009 and did not have an effect on the Fund's financial statements.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement was effective in March 2009 and did not have an impact on the Fund's financial statements.

**New Accounting Pronouncements – To Be Adopted**

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. The requirements in this Statement improve financial reporting by reducing inconsistencies that have

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

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

developed in accounting and financial reporting for intangible assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and are required to be applied retroactively. Management of the Agency will consider the applicability and impact, if any, on the Fund's financial statements upon adoption.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement improves financial reporting by requiring governments to measure and report derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, at fair value in their financial statements. Changes in fair value of hedging derivative instruments are reported in the statement of net assets as deferrals while changes in fair value of investment derivative instruments are reported within the investment revenue classification. This Statement is effective for financial statements for periods beginning after June 15, 2009. Management of the Agency will consider the applicability and impact, if any, on the Fund's financial statements upon adoption. As of September 30, 2009, the Fund did not have any derivative instruments which will be subject to this Statement.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definition. This Statement is effective for periods beginning after June 15, 2010. Management of the Agency will consider the impact, if any, on the Fund's financial statements upon adoption.

**NOTE 3: CHANGE IN ESTIMATES**

The Agency assumed a more conservative approach to estimating the probability of rebate liability payments discussed in Note 6. As of September 30, 2009, the rebate liability amount was \$1,476,830. The rebate liability was netted off against investment interest income in the Statement of Revenues, Expenses and Changes in Net Assets.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**NOTE 4: CASH/CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES**

Bond proceeds and revenues from mortgages, mortgage-backed securities and investments are invested in authorized investments as defined in the Fund's indenture until required for purchasing mortgage-backed securities, funding reserves, paying debt service or redeeming outstanding bonds and notes, and funding program and administrative and operating expenses.

The following assets, reported at fair value and held by the Fund at September 30, 2009, were evaluated in accordance with GASB Statement No. 40 for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

<u>Asset</u>	<u>Fair Value</u>
<u>Cash and Cash Equivalents</u>	
Money Market Funds	\$ 4,788,072
<u>Total Cash and Cash Equivalents</u>	<u>4,788,072</u>
<u>Investments</u>	
Investment Agreements	25,453,919
<u>Total Investments</u>	<u>25,453,919</u>
<u>Mortgage-Backed Securities</u>	
Ginnie Mae	44,867,800
Fannie Mae	41,616,797
Freddie Mac	56,690,990
<u>Total Mortgage-Backed Securities</u>	<u>143,175,587</u>
<u>Total Cash, Investments and Mortgage-Backed Securities</u>	<u>\$ 173,417,578</u>

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Under the Fund, the terms of the investments are set to allow for no market value loss at the time the invested funds are drawn for uses authorized under the indenture terms. As a means of limiting its exposure to fair value losses from rising interest rates, the Agency structures the maturities of the investment portfolio to be concurrent with cash



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**1996 SINGLE FAMILY MORTGAGE REVENUE BONDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**NOTE 4: CASH/CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)**

needs of the Fund in order to minimize losses that may be incurred from sale of investments prior to maturity. The money market funds operate in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. These funds can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. The cost of the money market mutual funds approximated fair value.

As of September 30, 2009, the amortized cost, fair value and maturities for the cash, cash equivalents, investments and mortgage-backed securities for the Fund are as follows:

<u>Asset</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Maturities (in years)</u>				
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-15</u>	<u>More than 15</u>
<u>Cash and Cash Equivalents</u>							
Money Market Funds	\$ 4,788,072	\$ 4,788,072	\$ 4,788,072	\$ -	\$ -	\$ -	\$ -
Total Cash and Cash Equivalents	<u>4,788,072</u>	<u>4,788,072</u>	<u>4,788,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Investments</u>							
Investment Agreements	25,453,919	25,453,919	6,395,629	1,170,408	-	-	17,887,882
Total Investments	<u>25,453,919</u>	<u>25,453,919</u>	<u>6,395,629</u>	<u>1,170,408</u>	<u>-</u>	<u>-</u>	<u>17,887,882</u>
<u>Mortgage-Backed Securities</u>							
Ginnie Mae	42,764,255	44,867,800	-	-	19,303	4,084,252	40,764,245
Fannie Mae	40,375,942	41,616,797	-	-	-	-	41,616,797
Freddie Mac	53,704,957	56,690,990	-	-	-	-	56,690,990
Total Mortgage-Backed Securities	<u>136,845,154</u>	<u>143,175,587</u>	<u>-</u>	<u>-</u>	<u>19,303</u>	<u>4,084,252</u>	<u>139,072,032</u>
<b>Total Cash, Investments and Mortgage-Backed Securities</b>	<b>\$ 167,087,145</b>	<b>\$ 173,417,578</b>	<b>\$ 11,183,701</b>	<b>\$ 1,170,408</b>	<b>\$ 19,303</b>	<b>\$ 4,084,252</b>	<b>\$ 156,959,914</b>

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the Fund will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of September 30, 2009, the Fund's investments were not subject to custodial credit risk under GASB Statement No. 40. The investments held by the trustee under the Fund are kept separate from the assets of the trustee bank and from other trust accounts and are titled in the name of respective bond indentures.

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**NOTE 4: CASH/CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)**

**Credit Risk and Concentration of Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All investment securities under the Fund in general must be at a rating not adversely affecting the rating of the respective bonds; and financial institutions who are counterparty to the Agency must be rated at least comparable to the existing rating on the Fund’s bonds unless counterparty ratings lower than the bond ratings are permitted and do not affect the ratings on the bonds as determined at the time the investment securities are acquired or investment agreements are executed.

The rating on the 1996 Single Family Mortgage Revenue Bonds as of September 30, 2009 and 2008 were AAA by Standard and Poor’s. The cash and cash equivalents, investment and mortgage-backed security portfolio with breakdown by credit quality and percentage of total portfolio for the Fund at September 30, 2009, are as follows:

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**NOTE 4: CASH/CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)**

<u>Asset</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>	<u>Credit Rating</u>	<u>Rating Agency</u>
<u>Cash and Cash Equivalents</u>				
Money Market Funds	\$ 4,788,072	3%	AAAm	S&P
Total Cash and Cash Equivalents	<u>4,788,072</u>	<u>3%</u>		
<u>Investments</u>				
Investment Agreements	1,561,857	1%	Aaa	Moody's
Investment Agreements	17,354,583	10%	AA	S&P
Investment Agreements	6,537,479	4%	A	S&P
Total Investments	<u>25,453,919</u>	<u>15%</u>		
<u>Mortgage-Backed Securities</u>				
Ginnie Mae	44,867,800	26%	AAA	S&P
Fannie Mae	41,616,797	24%	AAA	S&P
Freddie Mac	56,690,990	32%	AAA	S&P
Total Mortgage-Backed Securities	<u>143,175,587</u>	<u>82%</u>		
<b>Total Cash, Investments and Mortgage-Backed Securities</b>	<b>\$ 173,417,578</b>	<b>100%</b>		

**Cash and Cash Equivalents** - The Fund's cash and cash equivalents balance as of September 30, 2009 and 2008, consisted primarily of amounts held in AAAM - rated money market fund trust accounts within each bond series and administered by the Fund's bond trustee at the Agency's direction. Investments in money market funds carry the highest short-term credit ratings by nationally recognized statistical rating agencies, such as Standard & Poor's and Moody's Investors Service.

**Investments** - The Agency adheres to the specific covenants as stipulated in the Fund's indenture of trust regarding permitted investments. As of September 30, 2009, the Fund's investments only included investment agreements. Investments of proceeds from bond issuances in investment agreements are governed by the covenants of the respective bond series and the Fund's indenture of trust entered

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**NOTE 4: CASH/CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES (CONTINUED)**

between the Agency, the trustee and the investment agreement provider. All investment agreements are fixed interest rate investment contracts with highly rated financial institutions. In case of a downgrade beyond a preset threshold, the investment providers are required to collateralize both principal and interest with qualifying securities to be held by a designated collateral agent with mark to market and undervalue cure provisions.

**Mortgage-backed Securities** - Ginnie Mae mortgage-backed securities are guaranteed by the Government National Mortgage Association, an instrumentality of the United States Government. Ginnie Mae securities are “fully modified pass-through” mortgage-backed securities which require monthly payments by a Federal Housing Administration (FHA) lender, as the issuer of these guaranteed securities to the Agency. GNMA guarantees timely payment of principal and interest on Guaranteed Securities.

Fannie Mae and Freddie Mac mortgage-backed pass-through securities are top-rated by Standard & Poor’s and Moody’s Investors Service. The principal and interest payment on these mortgage-backed securities are guaranteed by Fannie Mae and Freddie Mac, accordingly. Though there is no explicit guarantee that Fannie Mae and Freddie Mac mortgage-backed securities are backed by the full faith and credit of the U.S. government, there is, however, an implicit guarantee, as government-sponsored enterprises are chartered by the U.S. Congress. Both Freddie Mac and Fannie Mae were placed into the U.S. Government receivership in 2008. The rating agencies continue to assign the highest credit rating to both of these entities.

Ginnie Mae, Fannie Mae and Freddie Mac mortgage-backed securities are required to be marked to market in accordance with GASB Statement No. 31. It is the intention of the Agency to hold these mortgage-backed securities until the underlying loans are paid in full.

The Fund recorded unrealized gains of \$7,641,077 and \$1,545,117 on mortgage-backed securities for fiscal years 2009 and 2008, respectively. The cumulative unrealized gain in fair market value of mortgage-backed securities as of September 30, 2009, was \$6,330,433, compared to the cumulative unrealized loss on the mortgage-backed securities of \$1,310,644 as of September 30, 2008.

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**NOTE 5: BONDS PAYABLE**

The bonds and notes issued by the Fund are special obligations of the Fund and are payable from the revenue and special funds of the indenture. The bonds and notes do not constitute debt of and are not guaranteed by the District or the Agency or any other program of the District or the Agency.

The provisions of the various bond indentures require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans and mortgage-backed securities. All outstanding bonds are subject to redemption at the option of the Agency, in whole or in part at any time, after certain dates, as specified in the respective bond indentures and bond resolutions, at prescribed redemption prices. The redemption premiums range up to 5%. Term bonds are generally subject to redemption, without premium, from mandatory sinking fund payments.

Bonds issued under the Fund are collateralized by:

- Mortgage-backed securities made in connection with underlying loans; and
- Investments of bond proceeds, debt service reserves and escrow accounts, all revenues, mortgage payments, and recovery payments received by the Fund from mortgage loans and mortgage-backed securities.

The following is a summary of the bond activity for the year ended September 30, 2009 and the debt outstanding and bonds payable under the Fund as of September 30, 2009:

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**NOTE 5: BONDS PAYABLE (Continued)**

Range of Interest Rates	Range of Maturities	Debt Outstanding at 9/30/2008	Bond Activity			Debt Outstanding at 9/30/2009	Discount (-) / Premium (+)	Bonds Payable at 9/30/2009	Due Within One Year	
			New Bonds Issued	Scheduled Maturity Payments	Bonds Redeemed					
1996 Series A	5.40% ~ 6.15%	2008 ~ 2028	\$ 5,220,000	\$ -	\$ 190,000	\$ 70,000	\$ 4,960,000	\$ 288,065	\$ 5,248,065	\$ 150,000
1997 Series B	5.25% ~ 5.90%	2008 ~ 2028	4,225,000	-	90,000	310,000	3,825,000	436,693	4,261,693	140,000
1998 Series A	4.90% ~ 5.35 %	2008 ~ 2029	7,880,000	-	210,000	360,000	7,310,000	444,837	7,754,837	205,000
1999 Series A	4.95% ~ 5.45%	2008 ~ 2030	7,230,000	-	160,000	530,000	6,540,000	701,146	7,241,146	175,000
2000 Series A	5.65% ~ 6.30%	2008 ~ 2031	3,550,000	-	75,000	10,000	3,465,000	718,099	4,183,099	70,000
2000 Series C	5.75% ~ 6.25%	2008 ~ 2031	800,000	-	20,000	-	780,000	-	780,000	20,000
2000 Series D	5.65% ~ 6.15%	2008 ~ 2031	3,010,000	-	60,000	-	2,950,000	727,888	3,677,888	65,000
2001 Series A	4.95% ~ 6.85%	2008 ~ 2032	4,760,000	-	95,000	335,000	4,330,000	290,447	4,620,447	90,000
2005 Series A	5.50%	2008 ~ 2025	5,790,000	-	265,000	280,000	5,245,000	251,703	5,496,703	260,000
2005 Series B	4.75% ~ 5.625%	2006 ~ 2035	15,470,000	-	255,000	915,000	14,300,000	345,055	14,645,055	265,000
2006 Series A	4.95%	2008 ~ 2026	3,815,000	-	135,000	200,000	3,480,000	-	3,480,000	130,000
2006 Series B	5.1% ~ 5.35%	2008 ~ 2037	24,695,000	-	450,000	1,570,000	22,675,000	402,695	23,077,695	330,000
2006 Series D	4.60%	2008 ~ 2020	1,845,000	-	90,000	145,000	1,610,000	-	1,610,000	120,000
2006 Series E	4.65%	2008 ~ 2037	49,385,000	-	850,000	795,000	47,740,000	-	47,740,000	870,000
2007 Series A	5.15%	2008 ~ 2038	49,665,000	-	700,000	20,535,000	28,430,000	453,510	28,883,510	320,000
2007 Series B	3.55%	2008	50,000,000	-	50,000,000	-	-	-	-	-
2005 Draw Down Series	Variable	2008	191,420,000	-	-	191,420,000	-	-	-	-
<b>Total</b>			<b>\$ 428,760,000</b>	<b>\$ -</b>	<b>\$ 53,645,000</b>	<b>\$ 217,475,000</b>	<b>\$ 157,640,000</b>	<b>\$ 5,060,138</b>	<b>\$ 162,700,138</b>	<b>\$ 3,210,000</b>

The following is a summary of the bond activity for the year ended September 30, 2008 and the debt outstanding and bonds payable under the Fund as of September 30, 2008:

Range of Interest Rates	Range of Maturities	Debt Outstanding at 9/30/2007	Bond Activity			Debt Outstanding at 9/30/2008	Discount (-) / Premium (+)	Bonds Payable at 9/30/2008	Due Within One Year	
			New Bonds Issued	Scheduled Maturity Payments	Bonds Redeemed					
1996 Series A	5.40% ~ 6.15%	2007 ~ 2028	\$ 5,745,000	\$ -	\$ 120,000	\$ 405,000	\$ 5,220,000	\$ 303,094	\$ 5,523,094	\$ 190,000
1997 Series B	5.20% ~ 5.90%	2007 ~ 2028	4,985,000	-	100,000	660,000	4,225,000	459,477	4,684,477	90,000
1998 Series A	4.80% ~ 6.25 %	2007 ~ 2029	8,925,000	-	215,000	830,000	7,880,000	467,456	8,347,456	210,000
1999 Series A	4.85% ~ 6.65%	2007 ~ 2030	8,310,000	-	175,000	905,000	7,230,000	734,271	7,964,271	160,000
2000 Series A	5.60% ~ 6.30%	2007 ~ 2031	3,790,000	-	75,000	165,000	3,550,000	751,242	4,301,242	75,000
2000 Series C	5.75% ~ 6.25%	2007 ~ 2031	810,000	-	10,000	-	800,000	-	800,000	20,000
2000 Series D	5.65% ~ 6.50%	2007 ~ 2031	3,235,000	-	60,000	165,000	3,010,000	761,483	3,771,483	60,000
2001 Series A	4.95% ~ 6.85%	2007 ~ 2032	5,195,000	-	100,000	335,000	4,760,000	303,261	5,063,261	100,000
2005 Series A	5.50%	2007 ~ 2025	6,805,000	-	270,000	745,000	5,790,000	267,272	6,057,272	265,000
2005 Series B	4.75% ~ 5.625%	2007 ~ 2035	16,570,000	-	255,000	845,000	15,470,000	358,242	15,828,242	255,000
2006 Series A	4.95%	2007 ~ 2026	4,635,000	-	150,000	670,000	3,815,000	-	3,815,000	140,000
2006 Series B	5.1% ~ 5.35%	2007 ~ 2037	25,000,000	-	305,000	-	24,695,000	417,251	25,112,251	320,000
2006 Series D	4.60%	2007 ~ 2020	1,960,000	-	60,000	55,000	1,845,000	-	1,845,000	95,000
2006 Series E	4.65%	2007 ~ 2037	50,000,000	-	615,000	-	49,385,000	-	49,385,000	850,000
2006 Series F	3.60%	2007	50,000,000	-	50,000,000	-	-	-	-	-
2007 Series A	5.15%	2008 ~ 2038	-	50,000,000	335,000	-	49,665,000	31,250	49,696,250	700,000
2007 Series B	3.55%	2008	-	50,000,000	-	-	50,000,000	-	50,000,000	50,000,000
2005 Draw Down Series	3.38%	2008	172,625,000	18,795,000	-	-	191,420,000	-	191,420,000	-
<b>Total</b>			<b>\$ 368,590,000</b>	<b>\$ 118,795,000</b>	<b>\$ 52,845,000</b>	<b>\$ 5,780,000</b>	<b>\$ 428,760,000</b>	<b>\$ 4,854,298</b>	<b>\$ 433,614,298</b>	<b>\$ 53,530,000</b>

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**NOTE 5: BONDS PAYABLE (Continued)**

As of September 30, 2009, the required principal payments for all Agency debt outstanding (including mandatory sinking fund payments but excluding special and optional redemptions) that occurred subsequent to September 30, 2009 and excluding the effect of unamortized discounts/premiums (which are listed as an adjustment to totals) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

For the Year Ending September 30,	1996 Single Family Mortgage Revenue Bonds	
	Interest	Principal
2010	\$ 8,067,202	\$ 3,210,000
2011	7,892,141	3,515,000
2012	7,705,409	3,630,000
2013	7,509,835	3,810,000
2014	7,304,066	4,000,000
2015-2019	33,064,767	23,110,000
2020-2024	26,185,080	28,695,000
2025-2029	17,953,106	33,170,000
2030-2034	9,482,242	31,095,000
2035-2039	2,066,021	23,405,000
Totals	\$ 127,229,869	157,640,000
Unamortized Premium / (Discount)		5,060,138
Bonds Payable		\$ 162,700,138

**NOTE 6: REBATE LIABILITY**

In accordance with the Internal Revenue Service Code, Section 148(f), (the Code), the Fund has recorded as rebate liability for excess investment earnings in connection with tax-exempt bonds and notes issued after 1981. The excess investment earnings arise due to actual investment yields earned by the bond series being greater than yields permitted to be retained by the indentures under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statement of Revenues, Expenses and Changes in Net Assets is reduced by the rebate liability due to excess investment earnings.

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**NOTE 6: REBATE LIABILITY**

The increase/decrease in fair value of investments on the Statement of Revenues, Expenses and Changes in Net Assets is adjusted by the change in the estimated rebate liability due to the change in fair value of investments.

The Fund had no rebate liability from interest income or from unrealized gains on mortgage-backed securities.

Rebate liability activity under the Fund for the year ended September 30, 2009 was as follows:

Rebate Liability as of September 30, 2008	\$	-
Change in estimated liability due to excess investment earnings		1,476,830
Change in estimated liability due to change in fair value of investments		-
Rebate Liability as of September 30, 2009	<u>\$</u>	<u>1,476,830</u>

Total rebate liability under the Fund is allocated as follows:

Estimated liability due to excess investment earnings	\$	1,476,830
Estimated liability due to change in fair value of investments		-
Rebate Liability as of September 30, 2009	<u>\$</u>	<u>1,476,830</u>

The Fund did not recognize rebate liability for the year ended September 30, 2008.

**NOTE 7: DEFERRED CREDITS**

The deferred credit balance represents grant funds received from the District's Department of Housing and Community Development (DHCD) under the U.S. Department of Housing and Urban Development's Home Investment Partnership Program (HOME). Under the respective grant agreements, the Agency may recycle repayments of HOME funds into its Bond Program.



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**NOTE 8: NET ASSETS**

The Fund's net assets are reserved as collateral for the respective bond issues, and are fully restricted. The Fund's net assets as of September 30, 2009 and 2008 were \$4,382,437 and \$474,076, respectively.

**NOTE 9: OTHER INCOME**

The Fund's other income is comprised of amortization of deferred revenue and was \$370,680 and \$661,378 for fiscal years 2009 and 2008, respectively.

**NOTE 10: SUBSEQUENT EVENTS**

The following subsequent events have occurred:

Bond Redemptions and Maturities under the Fund:

- On November 1, 2009, \$2,775,000 of Single Family Mortgage Revenue Bonds 2007 Series A were redeemed.
- On December 1, 2009, the following Single Family Mortgage Revenue Bonds were redeemed:

<u>Series</u>	<u>Maturing Principal</u>	<u>Principal Redemptions</u>	<u>Total</u>
1996 Series A	\$ 75,000	\$ 4,885,000	\$ 4,960,000
1997 Series B	85,000	235,000	320,000
1998 Series A	160,000	860,000	1,020,000
1999 Series A	135,000	570,000	705,000
2000 Series A	55,000	95,000	150,000
2000 Series C	10,000	-	10,000
2000 Series D	30,000	-	30,000
2001 Series A	40,000	-	40,000
2005 Series A	130,000	175,000	305,000
2005 Series B	130,000	615,000	745,000
2006 Series A	65,000	205,000	270,000
2006 Series B	165,000	1,715,000	1,880,000
2006 Series D	60,000	-	60,000
2006 Series E	430,000	1,440,000	1,870,000
2007 Series A	115,000	1,965,000	2,080,000
Total	<u>\$ 1,685,000</u>	<u>\$ 12,760,000</u>	<u>\$ 14,445,000</u>