financial report 2003

colorado housing and finance authority

Financial Statements for the Years Ended December 31, 2003 and 2002 and Independent Auditors' Reports

Colorado Housing and Finance Authority

Investing in Home and Business℠

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Introductory Section

The Colorado Housing and Finance Authority ("CHFA") is a public enterprise that finances affordable housing, business and economic growth opportunities for residents and businesses of Colorado. Its dual mission is to provide financial opportunities for affordable, decent, and accessible housing for lower- and moderate-income Coloradoans, and; to strengthen the state's economic development by financing the growth of Colorado-owned businesses.

Established by the Colorado General Assembly in 1973, CHFA raises funds through the sale of bonds and notes, which are not obligations of the State of Colorado, to individuals and organizations that share the goal of investing in home and business. The proceeds are loaned to eligible borrowers, primarily through private lending institutions across the state under the sound fiscal practices of the Authority. In 1982, the Colorado General Assembly passed legislation allowing CHFA to make loans to Colorado-owned small and medium-sized businesses. CHFA has provided ownership, affordable multi-family housing, or Colorado-owned business financing in every Colorado county.

As a self-sustaining organization, CHFA's operating revenues come from loan and program administration fees, interest charges, and investment income. CHFA receives no tax dollars, and its net revenues are reinvested into its service programs.

An independent 11-member board of directors governs CHFA. The Board includes a member of the Colorado General Assembly, the state auditor, a member of the governor's cabinet, and eight individuals appointed by the governor and confirmed by the State Senate.

Board of Directors

John (Jay) Davidson	Chairperson
M. Michael Cooke	Chair Pro Tem
Nancy McCallin	Secretary/Treasurer
Dale Hall	Board Member
Jesse L. Thomas	Board Member
Jo Ellen Davidson	Board Member
Joanne Hill	Board Member
Joseph Blake	Board Member
Joseph Garcia	Board Member
Michele Dressel	Board Member
Rick Grice	Board Member

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Independent Auditors' Report

The Board of Directors of
Colorado Housing and Finance Authority
Denver, Colorado

We have audited the accompanying statements of net assets of Colorado Housing and Finance Authority (the "Authority") as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, which statements reflect assets constituting 0.8% and 0.9%, respectively, of total assets at December 31, 2003 and 2002, and revenues constituting 4.6% and 5.3%, respectively, of total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, are based solely on the reports of such other auditors.

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 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 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, based on our audits and the other reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of the Authority, at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1(c) to the financial statements, during the year ended December 31, 2002, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's discussion and analysis on pages 1 through 6 is not a required part of the financial statements but is supplementary information required by the GASB. This information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying Supplemental Statements of Net Assets by Program as of December 31, 2003, Supplemental Statements of Revenues, Expenses and Changes in Net Assets by Program and Supplemental Statements of Cash Flows by Program for the year ended December 31, 2003, are presented for the purpose of additional analysis and are not a required part of the 2003 financial statements of the Authority. These statements are the responsibility of the Authority's management. Such schedules have been subjected to the auditing procedures applied in our audit of the 2003 financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the 2003 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

Denver, Colorado
April 16, 2004

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Management's Discussion and Analysis

December 31, 2003 (Unaudited)

This section of the Colorado Housing and Finance Authority's ("Authority") annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended December 31, 2003. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government.* This analysis should be read in conjunction with the Independent Auditors' Reports, the audited financial statements and accompanying notes. The Authority is entirely self – funded and does not draw upon the general taxing authority of the State of Colorado.

Financial Position and Results of Operations

- As a result of this year's operations, net assets increased 5.8% to $209.8 million compared to a December 31, 2002 amount of $198.3 million.

- Profitability, as measured by return on average assets, was 0.6% for 2003 compared to 0.8% for 2002, excluding the change in fair market value for long-term investments. Liquidity as measured by loans receivable as a percentage of total assets, was at 65.7% at year-end 2003 compared to 64.7% at December 31, 2002. Leverage, as measured by total net assets as a percentage of total assets (excluding $182.3 million of assets held to collateralize certain short-term borrowings), was 8.5% at year-end 2003 compared to 8.9% at December 31, 2002.

- Change in net assets was $11.5 million for 2003, a 34.4% decrease compared to 2002. This was primarily due to a significant decrease in the fair market value of long-term securities of $7.5 million, and a $4.1 million increase in general operating expenses primarily consisting of amortized service release premiums related to loans due to the high prepayment rate on single family loans in 2003.

- New loan production, as measured by total loans funded, was $658.6 million for the year compared to $605.1 million in 2002. The 8.8% increase is primarily due to the single family loan and commercial business lending production records of $483.2 million and $66.9 million respectively, up from $415.7 million and $49.7 million in 2002. The increases were partially offset by a decrease of $31.2 million in multi-family loan production to $108.5 million, from a 2002 level of $139.7 million.

- The Authority increased the amount of taxable debt issued in conjunction with its single family qualified lending program to approximately 53.2% of the related debt, compared to approximately 45.0% in 2002. This resulted in $192 million available to fund loans to low and moderate income borrowers without utilizing tax-exempt bond issuance capacity, as compared to $176 million in 2002.

Management's Discussion and Analysis

December 31, 2003 (Unaudited)

Overview of the Financial Statements

The financial statements consist of three sections: Management's discussion and analysis, the financial statements with notes, and supplementary schedules. The Authority, a corporate body and political subdivision of the State of Colorado, is a public purpose financial enterprise and therefore follows enterprise fund accounting. The financial statements offer information about the Authority's activities and operations.

The Statement of Net Assets includes all of the Authority's assets and liabilities, presented in order of liquidity. The resulting net assets presented in these statements are displayed as restricted or unrestricted. Under the Government Accounting Standards Board ("GASB") Statement No. 34, assets are restricted when their use is subject to external limits such as bond resolutions, legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Please note, however, that unrestricted assets include assets that have been committed by the Authority for specific uses, but for which an agreement may not yet be in place.

All of the current year's revenues and expenses of the Authority are recorded in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the activities of the Authority's operations over the past year, and presents the income (loss) or change in net assets. Operating income (loss), or change in net assets is calculated as revenues less expenses plus or minus interfund transfers.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, investing and financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Financial statements by program are presented as supplementary schedules. These statements separate the financial statements into three segments: Single Family Bond Programs, Multi-Family Bond Programs, and the General Fund, which includes all other Authority activities.

Management's Discussion and Analysis

Statements of Net Assets

December 31, 2003 (Unaudited)

The following table presents condensed information about the financial position of the Authority as of December 31, 2003 and 2002, and changes in the balances of selected items during the fiscal year ended December 31, 2003 (in thousands):

	years ended December 31,						
		2003		2002		Change	
Assets							
Current assets	$	**744,457**	$	708,512	$	35,945	5.1 %
Noncurrent assets:							
Long-Term marketable securities		**156,290**		147,092		9,198	6.3 %
Loans receivable, net		**1,674,010**		1,531,076		142,934	9.3 %
Other assets		**26,613**		27,380		(767)	(2.8) %
Capital assets		**34,358**		33,658		700	2.1 %
Total Assets	$	**2,635,728**	$	2,447,718	$	188,010	7.7 %
Liabilities							
Current liabilities	$	**393,524**	$	326,841	$	66,683	20.4 %
Noncurrent liabilities:							
Bonds payable, net		**2,024,838**		1,918,377		106,461	5.5 %
Notes Payable, net		**7,237**		3,844		3,393	88.3 %
Deferred fee income		**362**		358		4	1.1 %
Total Liabilities	$	**2,425,961**	$	2,249,420	$	176,541	7.8 %
Net Assets							
Invested in capital assets, net of related debt	$	**6,636**	$	5,327	$	1,309	24.6 %
Restricted		**78,563**		75,323		3,240	4.3 %
Unrestricted		**124,568**		117,648		6,920	5.9 %
Total Net Assets	$	**209,767**	$	198,298	$	11,469	5.8 %
Total Liabilities and Net Assets	$	**2,635,728**	$	2,447,718	$	188,010	7.7 %

Current assets increased $35.9 million or 5.1% largely due to an increase in refunding activity and the reinvestment of the proceeds for purposes of preserving tax-exempt bond issuance capacity. A total of $268.1 million of line-of-credit borrowings and short-term debt obligations were outstanding related to the volume capacity preservation activity as of December 31, 2003.

Long-term marketable securities increased $9.2 million or 6.3% compared to year-end 2002. The change is attributable to required debt service reserve levels proportionate to a greater level of bond debt outstanding as of year-end 2003.

Management's Discussion and Analysis
Statements of Net Assets (continued)
December 31, 2003 (Unaudited)

Total loans receivable increased $147.9 million during the current year, of which the non-current portion increase was $142.9 million. The change is largely due to new loan purchases of approximately $635.8 million, offset by loan repayments and prepayments that resulted in total pay downs of $470.0 million. The ability to increase the loan portfolio in a year of rapid loan repayment activity was funded by the issuance of $642.5 million in new bond issues in 2003.

The Authority's capital assets include land, buildings, office and computer equipment. The balance decreased 2.1% or $0.7 million. The change in capital assets in any given year is immaterial to the overall operation of the Authority. See footnote (1)(l) for more details.

Current liabilities increased $66.7 million or 20.4% over 2002 primarily as a result of bond issuances raising the current bonds payable balance from $176.1 million as of year end 2002 to $273.0 million for the year ended December 31, 2003 partially offset by the decrease of $31.0 million in notes and accrued interest payable. Notes payable decreased $26.8 million to $86.6 million from $113.4 million as a result of fewer borrowings from the lines of credit. Accrued interest payable decreased $4.2 million to $22.9 million from $27.1 million due to a significant increase in the level of low current rate variable bonds outstanding in 2003.

Noncurrent liabilities increased $109.9 million or 5.7% over 2002 principally due to the issuance of $642.5 million in new single family and multi-family bond issues, partially offset by repayments and early redemptions of $425.1 million as a result of a high level of loan prepayments. More detail on the Authority's debt is presented in Note 4 to the financial statements.

Restricted net assets were $78.6 million as of year-end 2003. The use of these amounts, recorded as net assets of the single family and multi-family bond funds, are directed by the related bond resolutions and indentures of trust.

Total net assets of the Authority climbed 5.8% or $11.5 million to $209.8 million as a result of positive operating results for the year, primarily due to revenues based on higher loan productions and other factors discussed below and the following footnotes beginning on page 11.

Management's Discussion and Analysis

Statements of Revenues, Expenses and Changes in Net Assets

December 31, 2003 (Unaudited)

The following table presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2003 and 2002 and the change from the prior year (in thousands):

	years ended December 31,						
		2003		2002		Change	
Operating Revenues:							
Interest on loans	$	**93,861**	$	86,960	$	6,901	7.9 %
Investment income		**23,804**		23,521		283	1.2 %
Net increase (decrease) in the fair market value of long-term marketable securities		**(3,578)**		3,904		(7,482)	(191.6) %
Rental operations		**9,549**		10,569		(1,020)	(9.7) %
Other revenues		**14,058**		12,422		1,636	13.2 %
Total Operating Revenues	$	**137,694**	$	137,376	$	318	0.2 %
Non-Operating Revenues		**292**		222		70	31.5 %
Total Revenues	$	**137,986**	$	137,598	$	388	0.3 %
Operating Expenses:							
Interest expense, bonds and notes	$	**92,629**	$	90,852	$	1,777	2.0 %
Salaries and related benefits		**11,545**		10,869		676	6.2 %
General operating		**14,360**		10,278		4,082	39.7 %
Other interest expense		**1,688**		1,715		(27)	(1.6) %
Depreciation		**2,745**		2,246		499	22.2 %
Provision for losses		**3,550**		4,147		(597)	(14.4) %
Total Operating Expenses	$	**126,517**	$	120,107	$	6,410	5.3 %
Change in Net Assets	$	**11,469**	$	17,491	$	(6,022)	(34.4) %
Net Assets:							
Beginning of year	$	**198,298**	$	180,807	$	17,491	9.7 %
End of year	$	**209,767**	$	198,298	$	11,469	5.8 %

Interest earned on loans of $93.9 million, interest income on investments of $23.8 million and interest expense on bonds and notes of $92.6 million are the primary components of total revenues and expenses of the Authority.

Total operating revenues were $137.7 million, which is $318,000 greater than 2002. Interest on loans climbed $6.9 million as a result of the increase in loans held by the Authority, partially offset by declining interest rates and the effect of high single family loan prepayments, which increased amortization of capitalized fees and down payment assistance balances. The Authority put more of its monies in short-term investments resulting in an increase of investment income of $283,000 or 1.2% over the prior year. However, the increase in interest rates in the last six months of 2003 was responsible for the net decrease in the fair market value of long-term marketable securities of $3.6 million, compared to a $3.9 million net gain recorded in 2002. Additionally, other revenue grew to $14.1 million as a result of increased loans service fees due to higher loan levels, and increases in certain program fees earned.

Management's Discussion and Analysis

Statements of Revenues, Expenses and Changes in Net Assets (continued)

December 31, 2003 (Unaudited)

Rental Operations revenue of $9.5 million was generated primarily from the Authority's Rental Acquisition Program ("RAP"). Under this program, the Authority owns 14 multi-family properties, which provide affordable housing to low and moderate-income families. Rental operations revenue was 10.4% below the 2002 level of $10.6 million due to lower revenue per rental unit realized and relatively high vacancy rates as a result of the continuing economic downturn in the state throughout 2003.

Total operating expenses of $126.5 million increased $6.4 million or 5.3% from the $120.1 million incurred in 2002. The rise was largely attributable to high rates of prepayments of single family loans, increasing the amortization of deferred expenses of $2.8 million included in general operating costs; and an increase in interest expense of $1.8 million over the previous year as a result of higher bonds and notes payable balances.

Also contributing to the increase of expenses was restructuring and related charges. During fiscal year 2003, the Board of Directors approved a restructuring plan to strengthen both the Authority's competitive and financial position. Specifically targeted were areas with opportunity for more efficient processes that would reduce staffing, improve integration and alignment of departments, or where redundancy existed. Overall changes were necessary both to lower the existing cost structure and to reallocate resources to pursue future operating strategies.

Economic Outlook

The Authority was created for the purpose of increasing the availability of affordable, decent, and accessible housing for lower income Coloradoans and strengthens the state's economy by providing financial assistance to businesses. Its primary business is funding the purchase of single and multi-family home mortgages; however, the Authority also owns properties and provides loans for new construction and rehabilitation of existing facilities. In addition, the Business Finance Division provides a wide variety of programs, including loan programs specific to businesses located in rural communities, women- and minority-owned businesses, manufacturers in the state, and nonprofit organizations committed to better serving the needs of Colorado citizens.

The ability to provide funding is dependent upon the Authority's financing activities, which are sensitive to the level of interest rates, the spread between the rate available on Authority loans and conventional mortgages offered in the Colorado market and the availability of affordable housing. Other key elements include the availability of tax-exempt financing on favorable terms and the budget appropriations from the U.S. Department of Housing and Urban Development, as contained in the federal budget for related program activities.

Despite the historical low interest rate and sluggish economy, the Authority maintained an active and continuous lending program with record production levels. The low interest rates provided more opportunities for those in the rental market to purchase their first home. The Authority remains committed to its business activities despite the current economic conditions.

Other Financial Analysis

At the outset of 2003, the Authority introduced a significant change to its single family loan programs. The prior practice of providing a grant for down payment assistance was replaced with a second mortgage loan program. This action will improve bond issue residuals under high prepayment scenarios and offers a lower first mortgage rate to the borrower.

Statements of Net Assets (in thousands)

	years ended December 31, 2003	2002
Assets		
Current Assets:		
Cash and interest bearing accounts	$ **8,300**	$ 20,791
Short-term marketable securities (at amortized cost which approximates market)	**647,147**	606,803
Loans receivable	**57,725**	52,796
Accrued interest receivable	**19,539**	17,658
Deferred debt financing costs	**662**	761
Other assets	**9,160**	8,843
Federally assisted program advances	**1,924**	860
Total Current Assets	**744,457**	708,512
Noncurrent Assets:		
Long-term marketable securities (at fair value) restricted	**149,461**	132,973
Long-term marketable securities (at fair value) unrestricted	**6,829**	14,119
Loans receivable, net	**1,674,010**	1,531,076
Property and equipment, net		
Corporate facilities	**5,625**	5,572
Rental operations	**28,733**	28,086
Other real estate owned, net	**5,772**	5,380
Deferred debt financing costs, net	**11,923**	13,699
Other assets	**8,918**	8,301
Total Noncurrent Assets	**1,891,271**	1,739,206
Total Assets	$ **2,635,728**	$ 2,447,718
Liabilities and Net Assets		
Current Liabilities:		
Bonds payable	**272,954**	176,126
Notes payable	**86,594**	113,378
Accrued interest payable	**22,882**	27,058
Accounts payable and other liabilities	**7,267**	7,721
Federally assisted program advances	**1,924**	860
Refundable deposits	**1,903**	1,698
Total Current Liabilities	**393,524**	326,841
Noncurrent Liabilities:		
Bonds payable, net	**2,024,838**	1,918,377
Notes payable	**7,237**	3,844
Deferred fee income	**362**	358
Total Noncurrent Liabilities	**2,032,437**	1,922,579
Total Liabilities	$ **2,425,961**	$ 2,249,420
Net Assets:		
Invested in capital assets, net of related debt	**6,636**	5,327
Restricted	**78,563**	75,323
Unrestricted	**124,568**	117,648
Total Net Assets	$ **209,767**	$ 198,298
Total Liabilities and Net Assets	$ **2,635,728**	$ 2,447,718

The accompanying notes are an integral part of these statements

Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	years ended December 31,	
	2003	**2002**
Operating Revenues:		
Interest on loans	$ **93,861**	$ 86,960
Investment income	**23,804**	23,521
Net increase (decrease) in the fair market value of long-term marketable securities	**(3,578)**	3,904
Rental operations	**9,549**	10,569
Other revenues	**14,058**	12,422
Total Operating Revenues	**137,694**	137,376
Operating Expenses:		
Interest expense, bonds and notes	**92,629**	90,852
Salaries and related benefits	**11,545**	10,869
General operating	**14,360**	10,278
Other interest expense	**1,688**	1,715
Depreciation	**2,745**	2,246
Provision for losses	**3,550**	4,147
Total Operating Expenses	**126,517**	120,107
Operating Income	**11,177**	17,269
Nonoperating Revenues and Expenses:		
Grant income	**292**	222
Federal grant receipts	**83,210**	80,858
Federal grant payments	**(83,210)**	(80,858)
Total Nonoperating Revenue	**292**	222
Change in Net Assets:	**11,469**	17,491
Net Assets:		
Beginning of Year	**198,298**	180,807
End of Year	$ **209,767**	$ 198,298

The accompanying notes are an integral part of these statements

Statements of Cash Flows (in thousands)

	years ended December 31, 2003	2002
Cash Flows from Operating Activities:		
Interest received on loans receivable	$ 100,535	$ 98,697
Receipts from principal payments on loans	469,979	366,043
Interest received from marketable securities	24,290	24,395
Receipts from rental operations	9,577	10,546
Receipts from other program revenues	14,233	12,400
Receipts from sales of other real estate owned	2,040	6,795
Receipts from loan fundings fees	3,248	2,456
Receipts from accounts payable, federally assisted programs, & escrow	969	2,095
Payments for loan fundings	(635,780)	(567,216)
Interest paid on bonds and notes	(105,796)	(102,716)
Payments for salaries and related benefits	(11,323)	(10,559)
Payments for general operating expenses	(10,319)	(9,301)
Payments for other interest	(1,688)	(1,715)
Payment for loan funding fees	(2,483)	(9,763)
Payments from other assets	(4,818)	(219)
Net Cash Used in Operating Activities	(147,336)	(178,062)
Cash Flows from Noncapital Financing Activities:		
Proceeds from issuance of notes	3,416,716	1,832,955
Proceeds from issuance of bonds	642,488	841,966
Receipts from grants	292	222
Receipts from federal grants	83,210	80,858
Payments for federal grant programs	(83,210)	(80,858)
Payments for notes	(3,440,106)	(1,820,233)
Payments for bonds	(425,058)	(434,444)
Payments for debt financing costs	(2,747)	(4,437)
Payments for bond call premiums	(227)	(1,549)
Net Cash Provided by Noncapital Financing Activities	191,358	414,480
Cash Flows from Capital and Related Financing Activities:		
Sale of property and equipment - rental operations	6	—
Purchase of property and equipment - corporate facilities	(875)	(1,002)
Purchase of property and equipment - rental operations	(2,576)	(3,240)
Net Cash Used in Capital and Related Financing Activities	(3,445)	(4,242)
Cash Flows from Investing Activities:		
Proceeds from long-term marketable securities	78,828	65,850
Purchase of long-term marketable securities	(91,552)	(94,942)
Net Cash Used in Investing Activities	(12,724)	(29,092)
Net increase in cash and cash equivalents	27,853	203,084
Cash and cash equivalents at beginning of year	627,594	424,510
Cash and cash equivalents at end of year	$ 655,447	$ 627,594

(continued)

The accompanying notes are an integral part of these statements

Statements of Cash Flows (in thousands)

	years ended December 31, 2003	2002
Reconciliation of Operating Income to Net Cash Used in Operating Activities:		
Operating income	$ **11,177**	$ 17,269
Adjustments to reconcile operating income to net cash used in operating activities:		
Increase (Decrease) in fair value of investments	**3,578**	(3,904)
Depreciation expense	**2,745**	2,246
Loss on sale of property and equipment	—	2
Gain on sale of long-term marketable securities	—	(103)
Accretion of capital appreciation term bonds	**641**	644
Amortization of:		
Deferred debt financing costs	**5,278**	6,832
Premiums and discounts on bonds, net	**(14,911)**	(21,172)
Premiums and discounts on long-term marketable securities, net	**(51)**	(78)
Deferred fee income	**(2,406)**	(2,304)
Deferred cash assistance expense	**11,500**	15,937
Service release premium expense	**4,352**	1,550
Mortgage yield recoupment income	—	(22)
Provision for losses	**3,550**	4,147
Principal payments on loans receivable	**469,978**	366,043
Sale of other real estate owned	**2,040**	6,795
New loan fundings	**(635,781)**	(567,216)
Deferred fee income	**3,247**	2,456
Deferred cash assistance expense	**(2,484)**	(9,763)
Changes in assets and liabilities:		
Accrued interest receivable	**(1,882)**	(820)
Other assets	**(4,548)**	(478)
Accrued interest payable	**(4,175)**	1,834
Accounts payable and other liabilities, federally assisted program advances, and refundable deposits	**816**	2,043
Net Cash Used in Operating Activities	$ **(147,336)**	$ (178,062)
Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities:		
Transfer of mortgage loans to other real estate owned	**2,432**	7,716
Transfer of loans receivable to other assets	**1,803**	5,582
Transfer of allowance on loans receivable to allowance on other real estate owned	—	87
Transfer of deferred debt financing costs to deferred refunding	—	1,359
Transfer of deferred fee income to deferred refunding	—	145
Transfer of other assets to deferred refunding	—	1,003
Transfer of other real estate owned to other assets	—	2,150

(Concluded)

The accompanying notes are an integral part of these statements

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Authorizing Legislation

Colorado Housing and Finance Authority (the "Authority") is a corporate body and a political subdivision of the State of Colorado established pursuant to the Colorado Housing and Finance Authority Act, Title 29, Article 4, Part 7 of the Colorado Revised Statutes, as amended (the "Act"). The Authority is not a state agency and is not subject to administrative direction by the State. The governing body of the Authority is its board of directors. Operations of the Authority commenced in 1974.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for low and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises of small and moderate size.

In 2001, the Colorado state legislature repealed the limitation on the amount of debt that the Authority can issue as well as removed the moral obligation of the State of Colorado on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State of Colorado.

In 1992, Colorado voters approved an amendment to the State Constitution, Article X, Section 20 which, among other things, imposes restrictions on increases in revenue and expenditures of state and local governments. In the opinion of its bond counsel, the Authority qualifies as an enterprise under the amendment and therefore is exempt from its provisions.

(b) Reporting Entity

In accordance with governmental accounting standards applicable to the reporting entity, the Authority has included related entities in its financial statements. The reporting entity definition is based primarily on the concept of financial accountability. The Authority is financially accountable for those units that make up its legal entity as well as its legally separate organizations, because they have the same board of directors and management personnel, and their surplus assets are relinquished to the Authority.

Tanglewood Oaks Apartments Corporation ("Tanglewood"), Hyland Park Centre Corporation ("Hyland Park"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Tanglewood, Hyland Park and Yorkshire are public, non-profit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. Financial information pertaining to the blended component units is presented later in this Note (1)(l). Separate financial statements for the individual component units may be obtained through the Authority.

Management also has concluded that the Authority is not a component unit of any other entity.

(c) Fund Accounting

The Authority has adopted GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*", as amended by GASB Statement No. 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and 34*", and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*". The objectives of the statements are to establish a basic financial reporting model that will result in greater accountability by governments, while providing more useful information to a wider range of users. This conceptual basis has resulted in a new financial reporting model with several changes that have major implications on governments; however, as a public enterprise, the implications to the Authority are significant but not as broad as to a true governmental entity.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(c) Fund Accounting (continued)

The effect on the financial statements of implementing GASB Statement No. 34, as amended, resulted in the presentation of classified Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, the change from the indirect to the direct method of presenting cash flows from operating activities, classification of net assets, reporting certain additional footnote disclosures, and the inclusion of Management's Discussion and Analysis as required supplementary information.

The financial activities of the Authority are recorded in the funds ("Bond Funds") established under various bond resolutions and in other funds established in connection with the administration of the Authority's programs. All activities of the Authority not performed pursuant to the Single Family and Multi-Family Funds are recorded in the General Fund. These Funds are combined for financial reporting purposes.

The Authority acts as an administrator of U.S. Department of Housing and Urban Development's ("HUD") contract administrator for the Section 8 subsidy program, administering the Housing Assistance Payments ("HAP") contracts for developments in the Authority's loan portfolio. Under Section 8, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy. Federally-assisted program accounts have also been established to record activities directly related to the federal Section 8 Housing Assistance Payments program and other related programs funded by HUD. These accounts are primarily used for housing assistance pass-through funds and for properties owned and utilized in affordable housing programs; which are dependent on budget appropriations from HUD, as contained in the Federal budget.

The financial statements of the Authority are presented on the basis of the proprietary fund accounting concept. The Authority's Board of Directors (the "Board") has designated certain amounts of the unrestricted net assets of the General Fund as of December 31, 2003 and 2002 for various purposes as follows. These designations of net assets are not binding, and can be changed by the Board of Directors.

		2003		2002
Appropriations for Loan Funds:				
Housing fund	$	**2,555**	$	571
Business finance fund		**17,975**		29,092
Housing opportunity fund		**29,458**		26,094
Total Appropriations for Loan Funds		**49,988**		55,757
Designations:				
General obligation bonds		**18,939**		18,468
General operating and working capital		**14,300**		15,084
Unrealized appreciation of investments		**642**		1,241
Single and multi-family bonds		**40,699**		27,098
Total Designations		**74,580**		61,891
Total Unrestricted Net Assets	$	**124,568**	$	117,648

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(c) Fund Accounting (continued)

Revenues and expenses are recognized on an accrual basis. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are interest income on loans and investment income. The Authority also recognizes revenues from rental operations and other revenues, which include loan servicing fees and other administrative fees. Operating expenses include interest expense, administrative expenses, depreciation, and the provision for losses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The restricted amounts are for the payment of principal, redemption premium, if any, or interest on all outstanding multi-family and single family bond issues, in the event that no other monies are legally available for such payments. The Board may withdraw all or part of this restricted balance only if (i) the Authority determines that such monies are needed for the implementation or maintenance of any duly adopted program of the Authority; and (ii) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities* that use Proprietary Fund Accounting, the Authority has elected not to adopt Financial Accounting and Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless so directed by the GASB.

(d) Budget Policies and Procedures

The Authority's budget year is the calendar year. A budget committee consisting of Finance, the Executive Committee and Human Resources reviews the initial drafts, makes necessary changes and presents the budget to the Executive Director for further review and approval. The Board is typically presented with a draft in November, and a public hearing is conducted. Modifications are made reflecting Board and public input, and the final version is typically adopted by the Board in December. The Board may modify the budget at any point during the fiscal year, but has chosen to do so only twice in its history in 1992 and in 2000. The budget is developed on a full accrual basis with estimations of revenue by source and expenses by object.

(e) Cash

Cash at December 31, 2003 and 2002, primarily includes market interest accounts of which approximately $1,423,000 and $1,698,000, respectively, is designated for various General Fund program purposes.

(f) Marketable Securities

The Authority is authorized by means of a Board of Directors approved investment policy, to invest in notes, bonds and other obligations issued or guaranteed by the U.S. Government and certain governmental agencies. Additionally, the Authority is permitted to invest, with certain restrictions as to concentration of risk, collateralization levels, maximum periods to maturity, and/or underlying rating levels applied, in revenue or general obligations of states and their agencies, certificates of deposits, U.S. dollar denominated corporate or bank debt, and commercial paper and repurchase agreements backed by U.S. government or agency securities. Each of the trust indentures established under the Authority's bond programs contains requirements as to permitted investments of bond fund proceeds, which may be more or less restrictive than the Authority's investment policy for General Fund monies.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(f) Marketable Securities (continued)

Investments generally consist of unexpended bond proceeds, debt service reserve funds and revenue funds established under the provisions of various trust indentures and investments of the Authority's general fund. In connection with the Authority's bond programs, unexpended bond proceeds are maintained in trust, put in various types of investments until such time as the proceeds can be used to purchase specific types of loans. As noted above, investments are subject in some cases to minimum collateralization levels. For uncollateralized investments, including Guaranteed Investment Contracts, appropriate credit ratings are generally required.

The Authority accounts for its investments in accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" ("Statement 31"), which establishes accounting and financial reporting standards for investments held by governmental entities. Statement 31 requires most investments to be recorded at fair value and the recognition of unrealized gains and losses in the statement of revenue and expenses. Statement 31 allows money market investments and participating interest earning investment contracts that have a remaining maturity at the time of purchase of one year or less to be recorded at amortized cost. The net increase (decrease) in the fair value of long-term marketable securities for 2003 and 2002 is reflected in the statements of revenues, expenses, and changes in net assets for the years presented.

(g) Loans Receivable

Mortgage loans are carried net of deferred cash assistance expense, deferred fee income, deferred mortgage yield recoupment income and allowance for loan losses. Generally, single family first mortgage loans bear interest at rates ranging from 4.625% to 10.00% per annum, payable monthly over 30 years. Single family mortgage loans are collateralized by first liens on the related properties, except for $9.4 million of 0% second-lien mortgages at December 31, 2003, issued under the Authority's new buyer assistance program. Multi-family and business loans bear interest at rates ranging from 1.00% to 12.00% per annum, payable over terms from 15 to 40 years. Servicing of mortgage loans is provided by the Authority and various approved and qualified private lending institutions, on behalf of the Authority. The Authority services approximately 98% of its loans directly.

(h) Fee Income and Expense

Loan and commitment fees, net of related costs, are deferred and amortized into interest income, using the effective interest method, over the lives of the loans. Under the Authority's Single Family Bond Program, the borrower could choose a loan that provided a cash assistance payment of generally 3% of the loan amount; this program ended in 2003. These payments were deferred and presently amortized into interest income, using the effective interest method, over the lives of the loans.

(i) Mortgage Yield Recoupment Income

Income in excess of arbitrage limits under the U.S. Treasury regulations is accounted for as an adjustment of the yield on the respective mortgage loan portfolio to the yield permitted under the regulations. These amounts are classified as reductions of loans receivable, and deferred and amortized over the lives of the respective mortgage loans.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(j) Compensated Absences

Full-time employees accrue paid-time off at the rate of between nineteen and twenty-nine days per year, depending on length of service. Partial full-time employees accrue vacation at 80% of full time employees, while part-time employees accrue vacation at 50%. The liability for compensated absences is based on current salary rates, and is included in the financial statements.

(k) Allowance for Losses

The allowance for losses on loans, accrued interest receivable, other real estate owned, and other assets is provided through charges against current operations based on management's periodic review of the loan and other real estate owned portfolios. This review considers such factors as the payment history of the loans, the projected cash flows of the borrowers, estimated value of the collateral, subsidies, historical loss experience for each type of insurance or guarantee (for losses particular to other real estate owned), additional guarantees provided by the borrowers and economic conditions. When this review determines that an exposure to loss is probable and can be reasonably estimated, a provision against current operations is made in the amount quantifiable. Loans receivable, other real estate owned and other assets are shown net of an allowance for losses of $19,091,000, $1,601,000 and $40,000 respectively, for 2003, and $16,230,000, $1,554,000, and $104,000, respectively, for 2002.

(l) Property, Equipment and Rental Real Estate Operations

Office buildings, furniture and equipment are carried at $5,625,000 and $5,572,000 (net of accumulated depreciation) at December 31, 2003 and 2002, respectively, representing cost.

The Authority commenced its Rental Acquisition Program ("RAP") in 1988, when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to low and moderate income families. The Authority has acquired and rehabilitated these properties with a combination of funds, including (i) general obligation and multi-family bond proceeds, (ii) seller-carry notes, and (iii) contributions from the General Fund. As a policy matter, the Authority sells these properties from time to time to qualified non-profit sponsors. Further, it is the policy of the Authority to distribute excess surplus net assets from the component units semiannually. These distributions are reflected in the component unit's net assets. As of December 31, 2003, the Authority owned a total of 14 RAP projects, including its three component units, containing 1,434 units.

Selected balance sheet items of the RAP are presented below

		2003		2002
RAP Combined, Including Component Units:				
Property, net of accumulated depreciation of $12,777 and $10,857	$	**28,733**	$	28,086
Total assets		**35,437**		36,628
Total liabilities		**23,120**		23,522
Net Assets	$	**12,317**	$	13,106
RAP Component Units Only:				
Property, net accumulated depreciation of $7,676 and $6,449	$	**17,315**	$	18,101
Total assets		**20,594**		21,897
Total liabilities		**16,785**		17,028
Net Assets	$	**3,809**	$	4,869

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(l) Property, Equipment and Rental Real Estate Operations (continued)

All revenue and expenses of these properties, including depreciation and interest, are reflected in the operating results of the Authority's General Fund. RAP revenues are recorded as components of rental operations and other revenues which include RAP interest income. Operating and other expenses are recorded in general operating expenses, and interest expense on notes payable and general obligation bond proceeds used to acquire the properties is recorded in other interest expense.

The following is a summary of the operating results of the RAP properties on a stand-alone basis before elimination of intercompany transactions.

		2003		2002
RAP Combined, Including Component Units:				
Rental operations	$	**9,549**	$	10,569
Interest income		**31**		57
Other revenues		**26**		45
General operating expenses		**(4,542)**		(4,015)
Depreciation expense		**(1,920)**		(1,700)
Interest expense		**(1,690)**		(1,715)
Net Income	$	**1,454**	$	3,241
RAP Component Units Only:				
Rental operations	$	**6,241**	$	7,174
Interest income		**25**		47
Other Revenues		**16**		16
General operating expenses		**(2,585)**		(2,519)
Depreciation expense		**(1,227)**		(1,142)
Interest expense		**(1,229)**		(1,246)
Net Income	$	**1,241**	$	2,330

The Authority uses the straight-line method of depreciation with estimated useful lives of three to thirty years. The capitalization threshold for corporate and RAP capital assets for 2003 was $1,000 and $500 respectively. As of January 1, 2004, the capitalization thresholds increased to $2,500 for corporate assets and $1,500 for RAP assets.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

A summary of corporate and RAP property and equipment follows:

	Balance Dec 31, 2002	Additions	Disposals	Transfers	Balance Dec 31, 2003
Corporate					
Computer equip/software	$ 965	564	—	(152)	$ 1,377
Office equipment	2,286	33	(14)	64	2,369
Furniture and fixtures	1,604	2	(260)	278	1,624
Buildings	3,443	276	—	(342)	3,377
Land	1,573	—	—	—	1,573
Construction in progress	—	—	—	152	152
Sub-Total	9,871	875	(274)	—	10,472
Accumulated Depreciation	(4,299)	(825)	277	—	(4,847)
Net Book Value	$ 5,572				$ 5,625
Rental					
Computer equip/software	$ 61	10	—	—	$ 71
Office equipment	2,980	291	—	—	3,271
Furniture and fixtures	2,854	185	—	—	3,039
Buildings	28,592	2,089	(8)	—	30,673
Land	4,456	—	—	—	4,456
Sub-Total	38,943	2,575	(8)	—	41,510
Accumulated Depreciation	(10,857)	(1,920)	—	—	(12,777)
Net Book Value	$ 28,086				$ 28,733
Consolidated Net Fixed Assets	$ 33,658				$ 34,358

	Balance Dec 31, 2001	Additions	Disposals	Transfers	Balance Dec 31, 2002
Corporate					
Computer equip/software	$ 160	755	—	50	$ 965
Office equipment	2,429	44	(157)	(30)	2,286
Furniture and fixtures	1,577	20	(3)	10	1,604
Buildings	3,290	183	—	(30)	3,443
Land	1,573	—	—	—	1,573
Sub-Total	9,029	1,002	(160)	—	9,871
Accumulated Depreciation	(3,913)	(544)	158	—	(4,299)
Net Book Value	$ 5,116				$ 5,572
Rental					
Computer equip/software	$ 6	59	—	(4)	$ 61
Office equipment	—	640	—	2,340	2,980
Furniture and fixtures	4,578	365	—	(2,089)	2,854
Buildings	26,955	1,884	—	(247)	28,592
Land	4,164	292	—	—	4,456
Sub-Total	35,703	3,240	—	—	38,943
Accumulated Depreciation	(9,156)	(1,701)	—	—	(10,857)
Net Book Value	$ 26,547				$ 28,086
Consolidated Net Fixed Assets	$ 31,663				$ 33,658

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(m) Deferred Debt Financing Costs and Bond Discounts and Premiums

Costs of debt issuance are deferred and amortized over the expected average lives of the bond issues using the effective interest method. Discounts and premiums on bonds payable are amortized over the expected average lives of the respective bond issues using the effective interest method.

(n) Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure and in-substance foreclosures. Other real estate owned is initially recorded at the lower of the investment in the loan or the estimated net realizable value.

(o) Other Assets

Included in other assets are prepaid expenses and unamortized costs of mortgage servicing rights.

(p) Federally Assisted Program Advances

In accordance with and pursuant to contracts between the Authority and the Department of Housing and Urban Development ("HUD"), the Authority administers federally assisted programs in certain areas of the State of Colorado. Under these programs, housing assistance payments are made to the owners of rental housing developments on behalf of tenants of limited income who meet the eligibility requirements. HUD advances funds to the Authority for the housing assistance payments and, for certain developments, pays a monthly fee to the Authority for its administration of the subsidy contracts. The advanced funds held by the Authority are $1,924,000 and $860,000 for 2003 and 2002 respectively. The administrative fees for these federally assisted programs are approximately $3,663,000 and $3,411,000 in 2003 and 2002, respectively.

(q) Interest Rate Swap Agreements

The Authority enters into interest rate swap agreements with rated swap counterparties in order to: (1) provide lower cost fixed rate financing for its loan production needs through synthetic fixed rate structures; and (2) utilize synthetic fixed rate structures with refunding bonds in order to generate cash flow savings. The interest differentials to be paid or received under such swaps are recognized as an increase or decrease in interest expense of the related bond liability. Additional information about the swap agreements is described in Footnote (5).

(r) Other Revenue and Other Interest Expense

Other revenue includes rental income from RAP, administrative fees from federally assisted programs, tax credit program fees, mortgage loan servicing fees, and reimbursements and fees from other programs. Other interest expense includes actual interest costs on debt incurred to finance RAP projects and on borrowings incurred to finance the Authority's facilities and equipment.

(s) Debt Refunding

For current and advance refundings resulting in defeasance of debt reported by the Authority, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the effective interest method. The deferred refunding amounts are classified as a component of bonds payable in the financial statements.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(1) Organization and Summary of Significant Accounting Policies (continued)

(t) Risk Management

The Authority has a risk management program under which the various risks of loss associated with its business operations are identified and managed. The risk management techniques utilized include a combination of standard policies and procedures, purchased insurance and partial self insurance. Commercial general liability, property losses, business automobile liability, worker's compensation and public officials' liability are all managed through purchased insurance. Through the end of the 2003 year, for excess risk exposure, all employee medical claims in excess of $30,000 per individual and $896,000 aggregate per year are also covered by the purchase of stop-loss insurance. The Authority is partially self-insured to cover claims that fall below these limits. The claim liability for the years ended December 31, 2003 and December 31, 2002, which is included in accounts payable and other liabilities, was as follows:

Effective January 1, 2004, the Authority has elected to discontinue the self-insured medical claims approach and the related stop-loss insurance has been discontinued. Coverage has been moved to a fully-insured plan underwritten and administered by a major insurance underwriter. Under the new plan, periodic premiums are shared between the Authority and employees who elect to be covered under the plan.

(u) 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 revenue and expenses during the reported period. Actual results could differ from those estimates.

(v) Mortgage Escrows

Escrow funds held by the Authority on behalf of others of approximately $9,402,000 and $9,942,000 at December 31, 2003 and 2002, respectively, are not reflected in the accompanying statements of net assets. The Authority is accountable for escrow funds and is contingently liable for them in the event of loss, but the funds are the assets of the parties that provided them.

(w) Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

	2003	2002
Beginning Claims Liability	$ **156,633**	$ 466,108
Period claims	**1,045,592**	651,241
Estimated accrual changes, adjustments	**(89,970)**	(309,475)
Claim payments	**(1,036,059)**	(651,241)
Ending Claims Liability	$ **76,196**	$ 156,633

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(2) Cash and Marketable Securities

Investment of the Authority's monies is made in accordance with the Authority's investment guidelines, which have been approved by the Board and are in compliance with the Act and the laws of the State of Colorado. Permitted investments under these guidelines include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 or P-1, certificates of deposit, repurchase agreements, money market mutual funds and investment agreements.

The Authority categorizes its cash into three categories as to their risk. Category 1 includes federally insured deposits, or deposits fully collateralized with securities held in the Authority's name. Category 2 includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name. Category 3 includes cash on hand, which is not insured.

At December 31, 2003 and 2002 the Authority had cash deposits with a carrying value of $8,300,000 and $20,791,000 respectively. These balances are categorized as follows:

Risk Category	2003	2002
1	$ **531**	$ 466
2	**7,371**	20,324
3	**398**	1
Total	$ **8,300**	$ 20,791

Below, the Authority's marketable securities (excluding Treasury money market funds and uncollateralized investment agreements) are also categorized into three categories as follows to provide an indication of the level of risk assumed as of December 31, 2003 and 2002. Category 1 includes those investments which are insured, or registered securities held by the Authority or its trustee in the Authority's name. Category 2 includes those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the Authority's name. Amounts not subject to categorization include money market mutual funds and uncollateralized investment agreements because securities are not issued as evidence of these investments. Short-term marketable securities are carried at amortized cost, which approximates market. Long-term marketable securities are carried at fair value.

		2003	2002
Investment Type	**Risk Category**	**Carrying Value**	**Carrying Value**
Categorized:			
U.S. Government & agency obligations	1	$ **190,332**	$ 205,878
Collateralized investment agreements	2	**43,201**	42,271
Repurchase agreements	1	**14,498**	9,140
Uncategorized:			
Treasury money market funds		**43,780**	76,362
Uncollateralized investment agreements		**511,626**	420,244
Total Investments		$ **803,437**	$ 753,895

Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue, and of the Board in accordance with the Act. Investment agreements generally provide for collateralization of balances in the event of a rating agency downgrade of the institution below certain rating requirements.

From time to time, the Authority invests in repurchase agreements. Securities underlying repurchase agreements are

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(2) Cash and Marketable Securities (continued)

limited to those government and agency obligations permitted by the Authority's investment guidelines and have a market value of at least or equal to 100% of the cost of the repurchase agreement. The Authority's collateral interest in the underlying securities is perfected by delivery of the securities to the Authority's trustee.

The following schedule shows the Authority's net (decrease) increase in fair value of long-term marketable securities by program, for the years ended December 31, 2003 and 2002:

	2003	2002
General Fund	$ **(555)**	$ (32)
Multi-Family Housing Insured Mortgage Revenue	**(708)**	2,508
Multi-Family/Project	**(426)**	319
Single Family Housing Revenue	**47**	245
Taxable Single Family Mortgage Revenue	**(16)**	22
Single Family Revenue	**(186)**	151
Single Family Program Senior and Subordinate	**(18)**	54
Single Family Mortgage Bonds	**(1,716)**	637
Total	$ **(3,578)**	$ 3,904

(3) Loans Receivable

Loans Receivable at December 31, 2003 and 2002 consist of the following:

	2003	2002
General Fund	$ **176,389**	$ 122,341
Multi-Family bond programs:		
Housing Insured Mortgage Revenue	**200,617**	218,608
Mortgage Revenue	**1,170**	1,953
Project	**334,787**	214,580
Adjustable Rate Housing Insured Mortgage Revenue	**27,792**	46,102
Single Family bond programs:		
Taxable Revenue	**3,289**	5,768
Taxable Program Senior and Subordinate	—	2,131
Revenue	**759**	1,154
Program	**11,290**	14,793
Program Senior and Subordinate	**276,922**	493,632
Revenue Refunding	**167**	314
Mortgage	**707,690**	458,617
Total Loans Receivable	**1,740,872**	1,579,993
Less:		
Deferred cash assistance expense	**18,919**	28,237
Deferred fee income	**(8,965)**	(8,128)
Allowance for loan losses	**(19,091)**	(16,230)
Total Loans Receivable, Net	$ **1,731,735**	$ 1,583,872

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(3) Loans Receivable (continued)

General Fund loans are made up of business, multi-family and single family loans acquired under various programs of the General Fund, warehoused loan to be acquired by the Bond Funds, loans held as investments, and loans backed by bonds within the General Fund. These loans are typically collateralized by mortgages on real property and improvements. At December 31, 2003 and 2002, $7,504,000 and $10,600,000 of these loans respectively, are secured by first liens ahead of second liens from the Small Business Administration. Additionally, at December 31, 2003 and 2002, $19,136,000 and $23,170,000 of these loans, respectively, are secured by a guarantee of the Small Business Administration or Consolidated Farm Services, formerly Farmers Home Administration.

Multi-family bond program loans are collateralized by first mortgages on applicable real estate, and, in some cases, are further insured by an agency of the United States government.

Single family bond program loans are collateralized by first mortgages on applicable real property, and in the case of loans with a loan-to-value ratio of 80% or more, are either insured by private mortgage insurance or the Federal Housing Administration or guaranteed by the Veterans Administration or Rural Economic and Community Development Department.

At December 31, 2003 and 2002, the amounts available in the Bond Funds for additional investments in new loans are as follows:

		2003		2002
Single Family mortgage program*	$	**148,956**	$	122,851
Multi-Family mortgages and projects		**42,388**		139,776
Total	$	**191,344**	$	262,627

*These amounts will be used to acquire single family mortgage loans warehoused in the Authority's General Fund of $64,092,000 and $0, at December 31, 2003 and 2002, respectively.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable

The aggregate principal amounts of bonds and notes payable at December 31, 2003 and 2002 are shown below. Interest is payable semi-annually unless otherwise noted.

Description and Due Date		Interest Rate (%)	2003	2002
General Fund:				
General Obligation Bonds:				
1992 Series A	2004-2030	9.125	$ **3,245**	$ 3,265
1998 Series A	2004-2017	4.45 to 5.25	**1,345**	1,410
ACCESS Programs:				
1991 Series A		9.15	—	1,055
1991 Series B		8.50	—	2,530
1995 Series A	2004-2015	7.67	**2,485**	2,517
1997 Series A	2004-2018	7.22	**1,854**	3,247
1999 Series A	2004-2018	6.49	**2,168**	2,894
QIC Program:				
1997 Series A		6.56	—	64
1999 Series A	2004-2024	5.71	**2,971**	4,927
2000 Series A	2004-2025	6.755	**329**	477
QIC - State Treasurer				
2003 Series A	2004-2023	5.004	**4,853**	—
SMART Program:				
2000 Series A	2004-2020	6.152	**8,234**	8,355
Taxable Mortgage Revenue: (principal and interest payable monthly)				
2000 Series A	2004-2020	6.914	**2,716**	4,158
2000 Series B	2004-2020	6.675	**1,413**	2,429
2001 Series AP	2004-2021	6.6135	**5,372**	13,364
2001 Series AV	2004-2021	6.625	**2,167**	4,189
Single Family Taxable Mortgage Revenue: (principal and interest payable monthly)				
2002 Series AP	2004-2021	5.662	**2,400**	6,314
Taxable Rental Project Revenue: (principal and interest payable monthly)				
2002 Series AV	2004-2022	5.550	**6,893**	6,985
2003 Series AV	2004-2024	5.190	**3,987**	—
Total General Fund			**$ 52,432**	**$ 68,180**

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable (continued)

Description and Due Date		Interest Rate (%)	2003	2002
Multi-Family				
Multi-Family Housing Insured				
Mortgage Revenue Bonds:				
1991 Series A		7.35	$ —	$ 2,470
1993 Series A		5.125 to 5.90	—	16,105
1995 Series A	2004-2037	5.75 to 6.80	**11,495**	11,750
1995 Series B	2004-2037	5.60 to 6.75	**13,840**	14,040
1995 Series C	2004-2015	5.20 to 6.50	**12,615**	12,705
1996 Series A	2004-2037	5.10 to 7.20	**21,900**	27,885
1996 Series B	2004-2037	5.75 to 8.00	**8,605**	8,695
1996 Series C	2004-2038	5.30 to 8.10	**14,895**	15,000
1997 Series A	2004-2038	4.80 to 7.125	**12,715**	12,885
1997 Series B	2004-2038	4.60 to 7.25	**22,925**	23,115
1997 Series C	2004-2039	4.80 to 6.75	**36,650**	37,085
1998 Series A	2004-2039	5.35 to 6.70	**20,145**	20,310
1998 Series B	2004-2040	5.45 to 7.00	**7,220**	7,240
1999 Series A	2004-2041	4.65 to 6.65	**33,950**	34,185
1999 Series B	2004-2041	5.25 to 5.85	**5,475**	5,515
1999 Series C	2004-2041	4.95 to 7.10	**16,350**	16,485
Total Multi-Family Housing Insured			**238,780**	265,470
Multi-Family Mortgage Revenue Bonds: (principal and interest payable monthly)				
Series 1978-3	2004-2017	6.50	**1,170**	1,219
Series 1980-1		10.50	—	734
Total Multi-Family Mortgage Revenue Bonds			**1,170**	1,953
Multi-Family/Project Bonds: *(principal and interest payable quarterly on some of the bonds)				
2000 Series A	2004-2032	5.225 to 6.15	**64,530**	66,630
2000 Series B*	2004-2042	6.0 to 7.39	**31,175**	31,380
2001 Series A	2004-2043	4.75 to 5.65	**37,670**	37,985
2002 Series A	2004-2042	2.45 to 5.70	**41,720**	48,005
2002 Series B	2004-2032	Variable (weekly)	**57,295**	64,600
2002 Series C	2004-2042	2.55 to 5.30	**142,720**	142,720
2003 Series A	2004-2033	Variable (weekly)	**48,780**	—
Total Multi-Family/Project Bonds			**423,890**	391,320
Adjustable Rate Multi-Family Housing Insured Mortgage Revenue Bonds:				
2002 Series AA	2004-2030	Variable (weekly)	**75,285**	75,720
Total Multi-Family			**$ 739,125**	$ 734,463

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable (continued)

Description and Due Date		Interest Rate (%)	2003	2002
Taxable Single Family Mortgage Revenue Bonds:				
1998 Issue I	2004-2018	6.65	$ **2,315**	$ 5,105
Taxable Single Family Program				
Senior and Subordinate Bonds:				
1993 Issue A		7.625	—	815
Single Family Revenue Bonds:				
1985 Series A	2005-2009	11.125	**777**	697
1985 Series B	2007	8.75	**885**	885
1993 Refunding Series A	2005-2008	7.00	**3,925**	3,664
Total Single Family Revenue Bonds			**5,587**	5,246
Single Family Program Bonds:				
1998 Series C	2004-2029	4.70 to 5.625	**11,740**	15,006
Single Family Program Senior and Subordinate Bonds:				
1994 Series B	2004-2024	5.75 to 7.50	**715**	1,260
1994 Series C	2004-2024	6.00 to 7.90	**335**	1,465
1994 Series D-I	2009-2024	5.90 to 8.00	**290**	1,400
1994 Series D-II	2004-2025	6.125 to 8.125	**130**	885
1994 Series E		5.95 to 8.125	—	1,065
1994 Series F	2004-2025	6.75 to 8.625	**125**	450
1995 Series A	2004-2025	5.90 to 8.00	**2,110**	3,490
1995 Series B	2004-2025	5.80 to 7.90	**1,740**	3,225
1995 Series C	2004-2025	5.20 to 7.65	**2,870**	5,265
1995 Series D	2004-2026	5.20 to 7.38	**10,745**	14,185
1996 Series A	2004-2027	5.10 to 7.40	**6,640**	11,630
1996 Series B	2004-2027	5.30 to 7.65	**5,385**	9,750
1996 Series C	2004-2027	5.30 to 7.55	**5,945**	9,995
1997 Series A	2004-2027	4.75 to 7.25	**9,055**	15,425
1997 Series B	2004-2028	5.00 to 7.00	**6,845**	14,435
1997 Series C	2004-2028	5.00 to 6.875	**8,295**	16,420
1998 Series A	2004-2029	4.75 to 6.60	**16,060**	25,315
1998 Series B	2004-2029	4.625 to 6.55	**16,289**	26,529
1998 Series D	2004-2029	4.25 to 6.35	**21,145**	36,540
1999 Series A	2004-2030	4.375 to 6.45	**20,965**	34,640
1999 Series B	2004-2030	4.875 to 6.80	**20,155**	37,670
1999 Series C	2004-2031	4.70 to 7.20	**24,625**	42,950
2000 Series A	2004-2031	5.75 to 7.54	**11,575**	24,005
2000 Series B	2004-2031	5.35 to 7.47	**12,425**	24,390
2000 Series C	2004-2031	5.70 to 8.40	**17,795**	33,225
2000 Series D	2004-2032	5.40 to 7.43	**17,305**	31,650
2000 Series E	2004-2032	5.375 to 7.10	**15,915**	31,400
2001 Series A	2004-2032	5.00 to 6.50	**27,280**	39,270
2001 Series B	2004-2033	5.00 to 6.55	**32,800**	52,275
2001 Series C	2004-2033	4.875 to 6.375	**41,835**	57,770
Total Single Family Program Senior and Subordinate Bonds			$ **357,394**	$ 607,974

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable (continued)

Description and Due Date		Interest Rate (%)	2003	2002
Single Family Revenue Refunding Bonds:				
1994 Series A	2004-2011	5.00 to 5.30	$ 35	$ 195
Single Family Mortgage Bonds				
2001 Series AA	2004-2041	5.25	**131,840**	131,840
2002 Series A	2004-2032	4.55 to 5.65	**90,305**	93,260
2002 Series B	2004-2032	4.80 to 5.40	**135,000**	179,340
2002 Series C	2004-2036	4.40 to 4.95	**172,000**	223,000
2003 Series A	2004-2032	1.20 to 5.15	**106,000**	—
2003 Series B	2004-2033	1.00 to 5.00	**254,000**	—
2003 Series C	2004-2032	1.13 to 5.00	**223,275**	—
Total Single Family Mortgage Bonds			**1,112,420**	627,440
Total Single Family			**1,489,491**	1,261,781
Mortgage Notes:				
March 31, 2003		—	—	43
July 1, 2004		4.50	**693**	713
November 30, 2005		—	**30**	40
September 12, 2007		6.50	**1,679**	1,679
January 3, 2008		7.25	**4,166**	—
September 4, 2020		1.00	**755**	796
June 22, 2025		1.00	**687**	715
Lines of Credit:				
January 2, 2004		1.180 and 1.366	**85,821**	113,127
Unsecured Notes Payable:				
June 30, 2003		Variable	—	5
December 31, 2003		Variable	—	104
Total Notes Payable			**93,831**	117,222
Total Bonds and Notes Payable			**2,374,879**	2,181,646
Discounts/premiums, net			**24,553**	38,016
Deferred losses on refunding amounts			**(7,809)**	(7,937)
Total Bonds and Notes Payable, Net			**$ 2,391,623**	$ 2,211,725

Included in several of the bond issues shown on this page are Capital Appreciation Term Bonds ("CATB"). The principal amounts of these bonds appreciate based on semiannual compounding of the original principal balances at the interest rates specified.

The appreciated balances of these bonds at maturity, and as reflected in the accompanying Statements of Net Assets at December 31, 2003 and 2002 are as follows:

			Appreciated Balances		
Description, Due Date and Type		Interest Rate (%)	Maturity	2003	2002
Single Family Revenue Bonds:					
1985 Series A	2005-2009 CATB	11.125	$ 1,110	**$ 777**	$ 697
1993 Refunding Series A	2005-2008 CATB	7.00	4,762	**3,925**	3,664
Single Family Senior and Subordinate Bonds:					
1998 Series B	2025-2029 CATB	5.5	6,053	**1,709**	1,618
Single Family Program Bonds:					
1998 Series C	2020-2029 CATB	5.625	$ 12,265	**$ 3,885**	$ 3,676

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable (continued)

Also included in the Bonds and Notes Payable section above are both Single Family and Multi-Family Bonds which carry the Authority's General Obligation pledge. These bonds have been issued as subordinate debt or class III obligations and are broken out below:

Description		2003		2002
Single Family Program Subordinate Bonds	$	**8,860**	$	13,575
Single Family Mortgage Bonds, Class III		**74,000**		32,000
Multi-Family/Project Bonds, Class III		**34,320**		21,390
Total	$	**117,180**	$	66,965

Bonds and Notes Payable activity for the year ended December 31, 2003 and 2002 were as follows:

Description		Beginning Balance 2003		Additions		Reductions		Ending Balance 2003
Bonds payable	$	2,064,424	$	641,682	$	425,058	$	2,281,048
Notes payable*		117,222		3,416,715		3,440,106		93,831
Unamortized premium/discount		38,016		1,448		14,911		24,553
Deferred losses on refunding		(7,937)		(227)		(355)		(7,809)
Total	$	2,211,725	$	4,059,618	$	3,879,720	$	2,391,623

Description		Beginning Balance 2002		Additions		Reductions		Ending Balance 2002
Bonds payable	$	1,662,337	$	842,610	$	440,523	$	2,064,424
Notes payable*		104,500		1,832,955		1,820,233		117,222
Unamortized premium/discount		53,112		—		15,096		38,016
Deferred losses on refunding		(4,477)		(3,766)		(306)		(7,937)
Total	$	1,815,472	$	2,671,799	$	2,275,546	$	2,211,725

* balance includes the Authority's two lines of credit for 2003 and three lines of credit for 2002

Bonds and Notes Payable sinking fund installments and maturities subsequent to December 31, 2003, are as follows:

	Single Family		Multi-Family		General Fund		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 243,535	$ 60,722	$ 18,393	$ 34,298	$ 11,026	$ 2,737	$ 86,594	$ 513
2005	49,948	60,470	12,547	33,702	3,368	2,302	91	425
2006	55,067	58,275	9,780	33,218	2,301	1,957	71	424
2007	55,301	55,680	10,339	32,727	1,489	2,034	1,751	423
2008	51,195	53,155	11,132	32,376	1,769	1,951	4,238	314
2009-2013	210,347	231,844	65,274	150,939	9,817	6,654	375	47
2014-2018	176,580	184,193	91,150	129,848	14,575	6,849	394	28
2019-2023	202,521	133,978	106,110	101,063	6,043	1,908	248	10
2024-2028	164,740	86,869	95,425	72,837	1,169	672	69	1
2029-2033	151,097	44,523	230,215	43,126	875	124	—	—
2034-2038	135,320	12,866	61,550	18,378	—	—	—	—
2039-2043	7,740	242	27,210	3,212	—	—	—	—
Total	$ 1,503,391*	$ 982,817	$ 739,125	$ 685,724	$ 52,432	$ 27,188	$ 93,831	$ 2,185

* includes $13.9 million of future accretion of principal value on capital appreciation bonds

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(4) Bonds and Notes Payable (continued)

Assets of the various Bond Funds are pledged for payment of principal and interest on the applicable bonds. In addition, certain assets are further restricted by bond resolutions for payment of interest on and/or principal of bonds in the event that the related debt service funds and other available monies are insufficient. Such assets are segregated within the various Bond Funds and are held in cash, marketable securities or investment agreements. At December 31, 2003 and 2002, these assets were at least equal to the amounts required to be restricted.

The Authority has an agreement with the Federal Home Loan Bank of Topeka (FHLB) for borrowings of up to $250,000,000. Amounts drawn under the agreement bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investment securities. There are no commitment fees associated with this agreement. As of December 31, 2003 and 2002, the outstanding borrowings under this agreement were $85,821,000 and $113,127,000, respectively.

The Authority also has a revolving, unsecured, commercial bank line of credit for borrowings of up to $30,000,000. Amounts drawn under the agreement bear interest fixed at 0.62% per annum above the London Interbank Offered Rate (LIBOR). This line of credit agreement terminates on July 25, 2004. The Authority pays an unused line fee at the rate of 0.15% per annum, payable in arrears on the last day of each calendar quarter until the Maturity Date, and on the Maturity Date. The fee is based upon the amount by which the daily average of the aggregate principal amount of the borrowings outstanding is less than the line of credit. As of December 31, 2003 and 2002, the Authority had no outstanding borrowings under this agreement.

The Authority has issued certain conduit Multi-family Housing Revenue Bonds and Industrial Development Bonds, the proceeds of which were made available to various developers and corporations for rental housing and commercial purposes. As of December 31, 2003, $185,262,000 and $92,530,000, respectively, of these bonds were outstanding. The corresponding amounts outstanding as of December 31, 2002 were $186,993,000 and $76,470,000, respectively. The bonds are payable solely from amounts received by the trustees from the revenue earned by the developers and corporations. Loan and corresponding debt service payments are generally guaranteed by irrevocable direct-pay letters of credit, or other credit enhancement arrangements. The faith and credit of the Authority is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Authority's financial statements.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(5) Interest Rate Swaps

Swaps in effect as of December 31, 2003

Objective

The Authority has entered into pay-fixed receive-variable interest rate swaps in order to: (1) provide lower cost fixed rate financing for its production needs through synthetic fixed rate structures and (2) utilize synthetic fixed rates with refunding bonds in order to generate cash flow savings.

Summary of Swap Transactions

The terms, including the fair values of the outstanding swaps as of December 31, 2003, are as follows. The notional amounts of the swaps match the principal amounts of the associated debt. Except as discussed under amortization risk, the authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable. All swap counterparties have a credit rating of AAA or Aaa by Standard and Poor's and Moody's Investors Service, respectively.

Associated Bond Issue	Current Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received (*)	Embedded Options	Fair Value (**)
Multi-Family/Project 2000A	$ 12,750	03/21/00	10/01/20	5.235%	VRDO's Rate		$ (1,692)
Multi-Family/Project 2000A	18,500	03/21/00	04/01/25	5.225%	VRDO's Rate		(2,213)
Multi-Family/Project 2000A	11,545	02/01/00	04/01/15	5.800%	VRDO's Rate		(1,898)
Multi-Family/Project 2000B	7,450	10/19/00	07/01/20	7.390%	LIBOR, plus .25%		(1,386)
Multi-Family/Project 2002A	9,410	01/29/03	10/01/22	5.100%	VRDO's Rate		(1,114)
Multi-Family/Project 2002AA	34,565	07/03/02	10/01/23	6.068%	VRDO's Rate		(6,645)
Multi-Family/Project 2002C	10,920	04/01/03	10/01/32	6.129%	VRDO's Rate	(1)	(865)
Multi-Family/Project 2002C	70,715	10/01/03	10/01/32	5.124%	VRDO's Rate	(2)	(6,677)
Multi-Family/Project 2002C	31,960	10/01/03	10/01/32	5.044%	VRDO's Rate	(3)	(2,743)
Multi-Family/Project 2003A	26,270	10/01/03	04/01/26	4.555%	LIBOR, plus .05%	(4)	(482)
Single-Family 2001AA	42,260	10/04/01	11/01/13	5.290%	VRDO's Rate		(2,715)
Single-Family 2001AA	46,840	10/04/01	05/01/31	4.600%	VRDO's Rate		(2,699)
Single-Family 2002A	40,435	04/25/02	11/01/13	5.499%	VRDO's Rate		(2,916)
Single-Family 2002A	19,090	04/25/02	11/01/21	4.749%	VRDO's Rate		(1,589)
Single-Family 2002B	15,000	10/24/02	05/01/22	5.529%	VRDO's Rate		(1,012)
Single-Family 2002B	49,750	07/18/02	11/01/13	5.285%	VRDO's Rate		(3,206)
Single-Family 2002B	40,000	07/18/02	11/01/21	4.506%	VRDO's Rate		(2,047)
Single-Family 2002C	30,000	10/24/02	11/01/32	5.350%	VRDO's Rate	(5)	(174)
Single-Family 2002C	60,000	10/24/02	11/01/11	4.362%	VRDO's Rate		(2,030)
Single-Family 2002C	40,000	10/24/02	05/01/22	4.422%	VRDO's Rate		(1,435)
Single-Family 2003A	12,000	08/01/03	05/01/11	3.390%	LIBOR, plus .05%		13
Single-Family 2003A	20,000	02/26/03	11/01/11	4.008%	LIBOR, plus .05%		(383)
Single-Family 2003A	20,000	02/26/03	11/01/21	4.160%	BMA, plus .05%		(377)
Single-Family 2003B	40,000	08/01/03	11/01/26	4.851%	LIBOR, plus .05%	(6)	846
Single-Family 2003B	60,000	08/01/03	05/01/12	3.665%	LIBOR, plus .05%		(179)
Single-Family 2003B	60,000	07/09/03	11/01/26	4.384%	BMA, plus .15%	(7)	(1,251)
Single-Family 2003C	60,000	12/03/03	05/01/12	4.033%	LIBOR, plus .05%		(1,063)
Single-Family 2003C	40,000	11/13/03	11/01/26	4.595%	BMA, plus .15%	(8)	(1,620)
Total	$ 929,460						$ (49,552)

(*) VRDO indicates a Variable Rate Demand Obligation and is the actual rate paid to bondholders. BMA is the Bond Market Association Municipal Swap Index. LIBOR is the London Interbank Offered Rate.

(**) The fair value of the outstanding swaps are presented for informational purposes only and do not impact the financial statements. All fair values have been calculated using the mark-to-market or par value method. Additionally, eight of the tax-exempt swap agreements contain language which transfer the risk of tax event to the Authority. The fair value of these swaps if a tax event had occured on the valuation date would be an additional $16,853,786 negative.

(1) The Authority has the right to terminate the swap at no expense from 10/1/12 to 4/1/15 up to $4,375,000; 4/1/15 to 4/1/18 up to $6,575,000; and from 4/1/18 to 10/1/32 up to the remaining notional balance.
(2) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to $59,340,000
(3) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to $26,785,000
(4) The Authority has the right to terminate the swap at no expense on or after 10/1/09 up to $16,576,000
(5) The Authority has the right to terminate the swap at no expense on or after 11/1/17 up to $21,765,000
(6) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $27,305,000
(7) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $43,170,000
(8) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $28,780,000

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(5) Interest Rate Swaps (continued)

Swap Payments and Associated Debt

Using interest rates as of December 31, 2003, debt service requirements of the Authority's outstanding hedged variable-rate debt and net swap payments are as follows. As rates vary, variable interest rate payments on the bonds and net swap payments will vary.

	Principal	Interest	Swaps, Net	Total
2004	$ 22,715	$ 14,822	$ 32,011	$ 69,548
2005	47,470	14,611	31,011	93,092
2006	57,700	13,964	29,317	100,981
2007	57,260	13,240	27,310	97,810
2008	52,530	12,459	25,497	90,486
2009-2013	202,695	52,845	102,345	357,885
2014-2018	184,170	37,997	71,653	293,820
2019-2023	171,130	20,533	38,264	229,927
2024-2028	84,375	8,485	16,158	109,018
2029-2033	49,415	1,950	3,889	55,254
Total	$ 929,460	$ 190,906	$ 377,455	$ 1,497,821

Risk Disclosure

Credit Risk

Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, i.e.; the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. As of December 31, 2003, the Authority was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Authority would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties must be rated in the double-A or higher category by either Moody's or Standard & Poor's at the time the contract is entered into.

Although the Authority executes swap transactions with various counterparties, 26 swaps, approximately 93% of the notional amount of swaps outstanding, are held with two separate AAA/Aaa rated special purpose vehicles, both of which are wholly owned subsidiaries of the same parent company (57% of the notional amount outstanding are held with the special purpose vehicle with a continuation structure and 36% are held with the special purpose vehicle with a terminating structure). Of the remaining swaps, the Authority holds 2 agreements, approximately 7% of the notional amount outstanding, with two counterparties rated AAA/Aaa, one of which operates as a special purpose vehicle with a terminating structure.

Basis Risk

The Authority's tax-exempt variable-rate bond coupon payments are substantially equivalent to the BMA rate (plus a trading spread). The Authority is receiving either its actual variable rate cost or a rate indexed on BMA for all of its tax-exempt swaps and is not exposed to basis risk, except in the situation of a tax event for certain swaps. Certain tax-exempt swaps, as indicated in the table above, contain tax risk language where in the occurrence of a tax event as described in the underlying contracts, the

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(5) Interest Rate Swaps (continued)

Authority would receive an alternative variable rate pegged at a percentage of LIBOR.

For those tax-exempt swaps containing tax risk language, for which the Authority could receive a variable-rate payment other than actual or BMA, the Authority would then be exposed to basis risk should the relationship between LIBOR and BMA converge. If a tax event occurs that results in the rates moving to convergence, the expected interest rate savings may not be realized.

The Authority's taxable variable-rate bond coupon payments are substantially equivalent to LIBOR (plus a trading spread). The Authority is receiving LIBOR (plus a trading spread) for all of its taxable swaps and is therefore only exposed to basis risk to the extent that the Authority's bonds diverge from their historical trading relationship with LIBOR.

Termination Risk

The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views such events to be remote at this time. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

There are certain termination provisions relevant to the Authority's counterparties operating as Special Purpose Vehicles ("SPV") with a terminating structure. In the case of certain events including the credit downgrade of the SPV or the failure of the parent company to maintain certain collateral levels, the SPV would be required to wind up its business and terminate all of its outstanding transactions with all clients including the Authority. All such terminations would be at mid-market pricing. In the event of such termination, the Authority would be exposed to the risk of market re-entry and the cost differential between the mid-market termination and the offered price upon re-entry.

Rollover Risk

The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of December 31, 2003, the Authority is not exposed to rollover risk.

Amortization Risk

The Authority is exposed to amortization risk in the event that the swap amortization schedules fail to match the actual amortization of the underlying bonds as a result of loan prepayments which significantly deviate from expectations. If prepayments are significantly higher than anticipated, the Authority would have the option of reinvesting or recycling the prepayments, or calling bonds which are not swapped. Alternatively, if the Authority chose to call bonds associated with the swap, the Authority could elect an early termination of the related portions of the swap at a potential cost to the Authority.

If prepayments are significantly lower than anticipated and the associated bonds remained outstanding longer than the relevant portion of the swap, the Authority could experience an increase in its exposure to unhedged variable rate bonds. Alternatively, the Authority could choose to enter into a new swap or an extension of the existing swap. If interest rates are higher at the time of entering into a new swap or swap extension, such action would result in a potential cost to the Authority.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(6) Debt Refundings

On September 24, 2003, the Authority issued its Multi-Family/Project Bonds 2003 Series A, in the aggregate principal amount of $48,780,000. Proceeds of the bonds and other surpluses were used to refund its outstanding Multi-Family Housing Insured Mortgage Revenue Bonds 1993 Series A in the amount of $11,365,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2003 ranging from a weekly high of 1.25% which could result in a decrease in aggregate debt service requirements of $6,302,000 and an approximate economic gain to the Authority of $6,770,000, to a weekly low of 1.09% which could result in a decrease in aggregate debt service requirements of $6,866,000 and an approximate economic gain to the Authority of $7,187,000.

On July 3, 2002, the Authority issued its Adjustable Rate Multi-Family Housing Insured Mortgage Revenue Bonds 2002 Series AA, in the aggregate principal amount of $75,720,000. Proceeds of the bonds and other surpluses were used for new mortgage loans and to refund its outstanding Multi-Family Housing Insured Mortgage Revenue Bonds 1992 Series A in the amount of $75,720,000. Included in the bond issue are variable rate bonds with interest rates within 2002 ranging from a weekly high of 1.85% which could result in a decrease in aggregate debt service requirements of $33,857,000 and an approximate economic gain to the Authority of $35,551,000, to a weekly low of 1.05%, which could result in a decrease in aggregate debt service requirements of $41,219,000, and an approximate economic gain to the Authority of $40,830,000.

On May 15, 2002 the Authority issued its Multi-Family/Project Bonds, 2002 Series A, in the aggregate principal amount of $48,005,000. Proceeds of the bonds were used for new mortgage loans and to refund its outstanding Multi-Family/Project Bonds, 2000 Series A in the amount of $19,450,000. The refunding resulted in effectively no change in the aggregate debt service requirements and no economic gain to the Authority. The purpose of this refunding was for tax compliance.

On April 25, 2002, the Authority issued its Single Family Mortgage Bonds 2002 Series A, in the aggregate principal amount of $94,065,000. Proceeds of the bonds were used for new mortgage loans and to refund its outstanding Single Family Program Senior and Subordinate Bonds, 1992 Series A in the amount of $9,975,000. Included in the bond issue are variable rate bonds with interest rates within 2002 ranging from a weekly high of 1.95% which could result in a decrease in aggregate debt service requirements of $5,510,000 and an approximate economic gain to the Authority of $5,474,000, to a weekly low of 1.05% which could result in a decrease in aggregate debt service requirements of $6,971,000 and an approximate economic gain to the Authority of $6,832,000.

Prior to 2003, economic gain or loss was calculated as the difference between the present value of the old debt service requirements and the present value of the new debt service requirements less related upfront costs of issuance, bond call premiums and bond insurance premiums, discounted at the effective interest rate.

In accordance with Governmental Accounting Standards Board Statement No. 23, the following deferred amounts related to the 2003 and 2002 refunding transactions are being amortized over the estimated remaining lives of the old debt, if shorter than the estimated lives of the refunding debt:

Description	2003	2002
Multi-Family Housing Insured Mortgage Revenue Bonds, 1993 Series A		
Call premium	$ **227**	$ —
Multi-Family Housing Insured Mortgage Revenue Bonds, 1992 Series A		
Deferred debt financing	—	1,044
Call premium	—	1,380
Multi-Family/Project Bonds, 2000 Series A		
Deferred debt financing	—	199
Single Family Program Senior and Subordinate Bonds, 1992 Series A		
Deferred fee income	—	(144)
Deferred debt financing costs	—	116
Call premium	—	169
Total Deferred Amount	$ **227**	$ 2,764

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(7) Retirement Plans

Employees of the Authority are members of the Public Employees' Retirement Association of Colorado ("PERA"), which is a cost-sharing multi-employer public employee retirement system plan.

Generally all employees are required to participate in PERA. Under the plan, State statute provides that members are eligible for full retirement benefits at age 50 with at least 30 years of service with a participating employer, at age 55 with at least 25 years of service, at age 65 with at least 5 years of service, or by earning 35 or more years of credited service. Reduced retirement benefits are available at age 50 with at least 25 years service, at age 55 with at least 20 years of service, and at age 60 with at least 5 years of service. Additionally, disability and survivors benefits are available. Benefits are vested after five years of service.

On May 6, 1977, the Governor signed into law House Bill 97-1082, which changed the benefit formula for each year of service over 20 from 1.5 percent of Highest Average Salary per year to 2.5 percent with a 100 percent maximum. All current benefit recipients with more than 20 years of service had their benefit recalculated. Benefit payments dated July 31, 1997 and later reflect this new calculation. The legislation also establishes a two-tier disability retirement program applicable to members who apply for disability on or after January 1, 1999.

House Bill 00-1458, passed in the 2000 legislative session, changed the retirement eligibility for members who are 55 year of age or older and retiring June 1, 2000 or later, with age plus year of service totaling 80 or more. These members may retire without a reduction for early retirement. The reduction for early retirement for some members with age plus years of service totaling less than 80 was also lowered. In addition, beginning March 1, 2000, the annual increase for PERA benefits was 3.5 percent compounded annually, and was no longer tied to the Consumer Price Index.

Under the plan, State statute requires the Authority and participating employees to contribute 9.6% and 8%, respectively for 2003, and 9.19% and 8%, respectively for 2002, of the employees' gross salaries, as defined by the plan. The Authority's total eligible payroll for participating employees was $8,497,000 and $8,221,000 for 2003 and 2002, respectively. Contributions by the Authority and employees approximated $816,000 and $685,000, respectively, for 2003, while for 2002 the amounts were $755,000 and $666,000, respectively.

The pension benefit obligation, which is the actuarial measure of the present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users of the Authority's financial statements assess PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERA and other pension programs and among employees. As of December 31, 2002, the date of the latest available audited information, the total accrued liability and total net assets available for benefits of the Municipal Division of PERA, in which the Authority's pension contributions and benefits are included, were $1,966,143,000 and $1,422,948,000, respectively. There were no unfunded liabilities in the Municipal Division as of December 31, 2002.

PERA, as a separate entity, issues its own annual financial statements, included in which is historical ten-year trend information for all contributions to the retirement system.

Notes to Financial Statements

Years Ended December 31, 2003 and 2002 (amounts for all notes in tabular format are in thousands)

(7) Retirement Plans (continued)

Included in the Authority's general obligation debt are bonds payable to PERA of $29,941,000 and $48,746,000 at December 31, 2003 and 2002, respectively.

An additional benefit offered to eligible Authority employees through PERA is a Voluntary Investment Program ("VIP"), established under Section 401(k) of the Internal Revenue Code. Participants may invest a percentage of their annual gross salaries up to the annual IRS limit of their gross salaries. The Authority contributes 1% of each participating employee's salary as part of the 401(k) Match and in addition to the 1% the Authority matches half of the employee's 401(k) contribution up to 5% of the participating employee's gross salary. The Authority's match is a maximum of 3.5%, which includes the 1% contribution. In addition, the Authority participates in PERA's MatchMaker Program, which uses a portion of the employer's contributions as a dollar-for-dollar match to the 401(k) plan, not to exceed 2% of the employee's gross salary. Contributions to the matchmaker program were $141,000 and $214,000 for 2003 and 2002 respectively.

The Authority also offers a deferred compensation plan for the purpose of providing retirement income for employees. This defined contribution plan is qualified under Section 457 in the Internal Revenue Code. The Authority does not contribute to this plan. Any changes or modifications to the deferred compensation plan must be approved by the Board of Directors. The plan is administered by an independent trustee.

(8) Contingencies

The Authority is the responding party in two employment-related claims and believes that the chance of successfully defending the claims is high, with no material loss anticipated. In addition, two of the Authority's blended component units are respondents in legal actions for personal injuries; the Authority believes that these actions are barred, or recovery limited, by statute, and no material loss is anticipated.

Supplemental Information

For the Year Ended December 31, 2003 with comparative totals for 2002 (in thousands)

Statements of Net Assets by Program

	General Fund	Single Family	Multi-Family	Eliminations	2003	2002
Assets						
Current Assets:						
Cash and interest bearing accounts	$ 8,300	$ —	$ —	$ —	**$ 8,300**	$ 20,791
Short-Term marketable securities	83,357	439,481	124,309	—	**647,147**	606,803
Loans receivable	5,632	33,919	18,719	(545)	**57,725**	52,796
Accrued interest receivable	2,173	10,012	7,456	(102)	**19,539**	17,658
Deferred debt financing costs	23	517	122	—	**662**	761
Other assets	7,384	1,776	—	—	**9,160**	8,843
Federally assisted program advances	1,924	—	—	—	**1,924**	860
Due to (from) other programs	(21,439)	24,871	(3,432)	—	**—**	—
Total Current Assets	87,354	510,576	147,174	(647)	**744,457**	708,512
Noncurrent Assets:						
Long-Term marketable securities restricted	545	78,781	70,135	—	**149,461**	132,973
Long-Term marketable securities unrestricted	6,829	—	—	—	**6,829**	14,119
Loans receivable, net	163,320	983,653	542,852	(15,815)	**1,674,010**	1,531,076
Property and equipment:						
Corporate facilities	5,625	—	—	—	**5,625**	5,572
Rental operations	28,733	—	—	—	**28,733**	28,086
Other real estate owned, net	4,172	1,600	—	—	**5,772**	5,380
Deferred debt financing costs, net	416	9,305	2,202	—	**11,923**	13,699
Other assets, net	8,918	—	—	—	**8,918**	8,301
Total Noncurrent Assets	218,558	1,073,339	615,189	(15,815)	**1,891,271**	1,739,206
Total Assets	$ 305,912	$ 1,583,915	$ 762,363	$ (16,462)	**$ 2,635,728**	$ 2,447,718
Liabilities and Net Assets						
Current Liabilities:						
Bonds payable	$ 11,026	$ 243,535	$ 18,393	$ —	**$ 272,954**	$ 176,126
Notes payable	86,594	—	—	—	**86,594**	113,378
Accrued interest payable	1,142	13,273	8,569	(102)	**22,882**	27,058
Accounts payable and other liabilities	6,754	186	327	—	**7,267**	7,721
Federally assisted program advances	1,924	—	—	—	**1,924**	860
Refundable deposits	1,903	—	—	—	**1,903**	1,698
Total Current Liabilities	109,343	256,994	27,289	(102)	**393,524**	326,841
Noncurrent Liabilities:						
Bonds payable, net	41,406	1,269,390	714,042	—	**2,024,838**	1,918,377
Notes payable, net	23,597	—	—	(16,360)	**7,237**	3,844
Deferred fee income	362	—	—	—	**362**	358
Total Noncurrent Liabilities	65,365	1,269,390	714,042	(16,360)	**2,032,437**	1,922,579
Total Liabilities	174,708	1,526,384	741,331	(16,462)	**2,425,961**	2,249,420
Net Assets						
Invested in capital assets, net of related debt	6,636	—	—	—	**6,636**	5,327
Restricted	—	57,531	21,032	—	**78,563**	75,323
Unrestricted	124,568	—	—	—	**124,568**	117,648
Total Net Assets	131,204	57,531	21,032	—	**209,767**	198,298
Total Liabilities and Net Assets	$ 305,912	$ 1,583,915	$ 762,363	$ (16,462)	**$ 2,635,728**	$ 2,447,718

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

Supplemental Information

For the Year Ended December 31, 2003 with comparative totals for 2002 (in thousands)

Statements of Revenues, Expenses and Changes in Net Assets by Program

	General Fund	Single Family	Multi-Family	Eliminations	2003	2002
Operating Revenues:						
Interest on loans	$ 10,094	$ 48,924	$ 36,072	$ (1,229)	**$ 93,861**	$ 86,960
Investment income	1,955	14,566	7,283	—	**23,804**	23,521
Net increase (decrease) in FMV of securities	(570)	(1,873)	(1,135)	—	**(3,578)**	3,904
Rental operations	9,549	—	—	—	**9,549**	10,569
Other revenues	14,058	—	—	—	**14,058**	12,422
Program fees	4,665	(510)	(4,155)	—	**—**	—
Total Operating Revenues	39,751	61,107	38,065	(1,229)	**137,694**	137,376
Operating Expenses:						
Interest expense, bonds and notes	5,345	56,310	32,631	(1,657)	**92,629**	90,852
Salaries and related benefits	11,545	—	—	—	**11,545**	10,869
General operating	13,651	436	273	—	**14,360**	10,278
Other interest expense	1,260	—	—	428	**1,688**	1,715
Depreciation	2,745	—	—	—	**2,745**	2,246
Provision for losses	133	354	3,063	—	**3,550**	4,147
Total Operating Expenses	34,679	57,100	35,967	(1,229)	**126,517**	120,107
Operating Income	5,072	4,007	2,098	—	**11,177**	17,269
Nonoperating Revenues:						
Grant Income	292	—	—	—	**292**	222
Federal grant receipts	83,210	—	—	—	**83,210**	80,858
Federal grant payments	(83,210)	—	—	—	**(83,210)**	(80,858)
Total Nonoperating Revenues	292	—	—	—	**292**	222
Income Before Transfers	5,364	4,007	2,098	—	**11,469**	17,491
Transfers (To) From Other Programs	2,865	(2,623)	(242)	—	**—**	—
Change in Net Assets	8,229	1,384	1,856	—	**11,469**	17,491
Net Assets:						
Beginning of year	122,975	56,147	19,176	—	**198,298**	180,807
End of year	$ 131,204	$ 57,531	$ 21,032	$ —	**$ 209,767**	$ 198,298

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

Supplemental Information

For the Year Ended December 31, 2003 with comparative totals for 2002 (in thousands)

Statements of Cash Flows by Program

	General Fund	Single Family	Multi-Family	Eliminations	2003	2002
Cash Flows From Operating Activities:						
Interest received on loans receivable	$ 8,684	$ 59,204	$ 33,875	$ (1,228)	$ **100,535**	$ 98,697
Receipts from principal payments on loans	31,594	377,977	60,408	—	**469,979**	366,043
Interest received from marketable securities	2,145	14,748	7,397	—	**24,290**	24,395
Receipts from rental operations	9,577	—	—	—	**9,577**	10,546
Receipts from other program revenues	14,233	—	—	—	**14,233**	12,400
Receipts from sales of other real estate owned	—	2,040	—	—	**2,040**	6,795
Receipts from loan fundings fees	2,912	—	336	—	**3,248**	2,456
Receipts from accounts payable, federally assisted programs, and escrow	1,100	(61)	(70)	—	**969**	2,095
Payments for loan fundings	(490,993)	(31,611)	(113,176)	—	**(635,780)**	(567,216)
Interest paid on bonds and notes	(5,518)	(69.853)	(32,082)	1,657	**(105,796)**	(102,716)
Payments for salaries and related benefits	(11,323)	—	—	—	**(11,323)**	(10,559)
Payments for general operating expenses	(9,610)	(436)	(273)	—	**(10,319)**	(9,301)
Payments for other interest	(1,259)	—	—	(429)	**(1,688)**	(1,715)
Payment for loan fundings fees	(1,882)	(601)	—	—	**(2,483)**	(9,763)
Payments from other assets	(4,889)	(4)	75	—	**(4,818)**	(219)
Cash due to (from)	393,615	(371,567)	(22,048)	—	—	—
Net Cash Provided by (used in) Operating Activities	(61,614)	(20,164)	(65,558)	—	**(147,336)**	(178,062)
Cash Flows From Noncapital Financing Activities:						
Proceeds from issuance of notes	3,416,716	—	—	—	**3,416,716**	1,832,955
Proceeds from issuance of bonds	8,985	584,723	48,780	—	**642,488**	841,966
Receipts from grants	292	—	—	—	**292**	222
Receipts from federal grants	83,210	—	—	—	**83,210**	80,858
Equity transfers	2,865	(2,623)	(242)	—	—	—
Payments for federal grant programs	(83,210)	—	—	—	**(83,210)**	(80,858)
Payments for notes	(3,440,106)	—	—	—	**(3,440,106)**	(1,820,233)
Payments for bonds	(24,735)	(356,205)	(44,118)	—	**(425,058)**	(434,444)
Payments for debt financing costs	—	(3,076)	329	—	**(2,747)**	(4,437)
Payments for bond call premiums	—	—	(227)	—	**(227)**	(1,549)
Net Cash Provided by (used in) Noncapital Financing Activities	(35,983)	222,819	4,522	—	**191,358**	414,480
Cash Flows From Capital and Related Financing Activities						
Sale of property and equipment - rental operations	6	—	—	—	**6**	—
Purchase of property and equipment - corporate facilities	(875)	—	—	—	**(875)**	(1,002)
Purchase of property and equipment - rental operations	(2,576)	—	—	—	**(2,576)**	(3,240)
Net Cash Provided by (used in) Capital and Related Financing Activities	(3,445)	—	—	—	**(3,445)**	(4,242)
Cash Flows From Investing Activities:						
Proceeds from long-term marketable securities	13,563	18,398	46,867	—	**78,828**	65,850
Purchase of long-term marketable securities	(5,575)	(37,499)	(48,478)	—	**(91,552)**	(94,942)
Net Cash Provided by (used in) Investing Activities	7,988	(19,101)	(1,611)	—	**(12,724)**	(29,092)
Net Increase (Decrease) in Cash and Cash Equivilants	(93,054)	183,554	(62,647)	—	**27,853**	203,084
Cash and Cash Equivilants at Beginning of Year	184,711	255,927	186,956	—	**627,594**	424,510
Cash and Cash Equivilants at End of Year	$ 91,657	$ 439,481	$ 124,309	$ —	$ **655,447**	$ 627,594

See the Independent Auditors' Reports, the audited financial statements and accompanying notes (continued)

Supplemental Information

For the Year Ended December 31, 2003 with comparative totals for 2002 (in thousands)

Statements of Cash Flows by Program

	General Fund	Single Family	Multi-Family	Eliminations	2003	2002
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities:						
Operating income	$ 5,072	$ 4,007	$ 2,098	$ —	$ **11,177**	$ 17,269
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Increase (decrease) in fair value of investments	570	1,873	1,135	—	**3,578**	(3,904)
Depreciation expense	2,745	—	—	—	**2,745**	2,246
Loss on sale of property and equipment	—	—	—	—	**—**	2
Gain on sale of long-term marketable securities	—	—	—	—	**—**	(103)
Accretion of capital appreciation term bonds	—	641	—	—	**641**	644
Amortization of:						
Deferred debt financing costs	26	4,738	514	—	**5,278**	6,832
Premiums and discounts on bonds, net	—	(14,909)	(2)	—	**(14,911)**	(21,172)
Premiums and discounts on long-term marketable securities, net	(88)	98	(61)	—	**(51)**	(78)
Deferred fee income	(1,988)	—	(418)	—	**(2,406)**	(2,304)
Deferred cash assistance expense	592	10,908	—	—	**11,500**	15,937
Service release premium expense	4,352	—	—	—	**4,352**	1,550
Mortgage yield recoupment income	—	—	—	—	**—**	(22)
Provision for losses	133	354	3,063	—	**3,550**	4,147
Principal repayments on loans receivable	31,594	377,977	60,407	—	**469,978**	366,043
Sale of other real estate owned	—	2,040	—	—	**2,040**	6,795
New loan fundings	(490,993)	(31,611)	(113,177)	—	**(635,781)**	(567,216)
Deferred fee income	2,912	—	335	—	**3,247**	2,456
Deferred cash assistance expense	(1,882)	(602)	—	—	**(2,484)**	(9,763)
Changes in assets and liabilities:						
Accrued interest receivable	264	(542)	(1,604)	—	**(1,882)**	(820)
Other assets	(4,620)	(4)	76	—	**(4,548)**	(478)
Accrued interest payable	(199)	(4,013)	37	—	**(4,175)**	1,834
Accounts payable and other liabilities, federally assisted program advances, escrow and refundable deposits	946	(61)	(69)	—	**816**	2,043
Cash due to (from)	388,950	(371,058)	(17,892)	—	**—**	—
Net cash provided by (used in) operating activities	$ (61,614)	$ (20,164)	$ (65,558)	$ —	$ **(147,336)**	$ (178,062)
Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities:						
Transfer of mortgage loans to other real estate owned	(1,120)	2,570	982	—	**2,432**	7,716
Transfer of loans receivable to other assets	103	1,700	—	—	**1,803**	5,582
Transfer of allowance on loans receivable to allowance on other real estate owned	—	—	—	—	**—**	87
Transfer of deferred debt financing costs to deferred refunding	—	—	—	—	**—**	1,359
Transfer of deferred fee income to deferred refunding	—	—	—	—	**—**	145
Transfer of other assets to deferred refunding	—	—	—	—	**—**	1,003
Transfer of other real estate owned to other assets	—	—	—	—	**—**	2,150

See the Independent Auditors' Reports, the audited financial statements and accompanying notes (concluded)

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with ***Government Auditing Standards***

To the Board of Directors of
Colorado Housing and Finance Authority
Denver, Colorado

We have audited the financial statements of Colorado Housing and Finance Authority (the "Authority") as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated April 16, 2004. 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 Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and the use of the Board of Directors, audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

Denver, Colorado
April 16, 2004

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