

# Comprehensive Annual Financial Report

## Enterprise Funds of the State of Oregon

### Housing and Community Services Department

*For the Year Ended June 30, 2003*

***Bob Repine***

Director

***Rick Crager***

Chief Financial Officer

**Prepared by:**

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# *Introductory Section*



# Oregon

Theodore R. Kulongoski, Governor

November 20, 2003

The Honorable Theodore R. Kulongoski  
Governor of the State of Oregon  
State Capitol  
Salem, Oregon 97310

## Housing and Community Services

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We are pleased to submit the Comprehensive Annual Financial Report of the Oregon Housing and Community Services Department's (OHCS) Enterprise Funds, for the fiscal year ended June 30, 2003. The financial statements, included on pages 14 – 32, do not present all activities and financial positions of OHCS, but the enterprise activities only. These activities are reported as a separate fund of OHCS and an annual financial report is issued for these activities in accordance with OHCS's Indentures of Trust. OHCS management is responsible for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures.

The report consists of five sections: (1) an Introductory Section, composed of this letter of transmittal and an organization summary; (2) the Financial Section, which contains the audit opinion of the Secretary of State Audits Division as well as the Department's financial statements for its Enterprise Funds; (3) Supplementary Information, which includes additional information on the Enterprise Funds; (4) the Statistical Section, which includes statistical data related to the Enterprise Funds; and (5) Other Reports, which includes the Report on Internal Control and Compliance prepared by the Audits Division.

The Secretary of State, Audits Division, has audited the financial records, books of account, and transactions of OHCS's Enterprise Funds for the year ended June 30, 2003. The auditors used generally accepted auditing standards in conducting the engagement. Their unqualified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements entitled Management's Discussion and Analysis (MD&A). The Oregon Housing and Community Services Department's MD&A can be found in the Financial Section immediately following the audit opinion. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

### Overview of the Department

OHCS is the State's housing finance agency and community services program administrator. The Department provides financial and program support to create and preserve opportunities for quality, affordable housing for Oregonians of lower and moderate income and administers federal and state antipoverty, homeless, energy assistance, and community services programs.

While both State Community Services and the Oregon Housing Division were established as separate state agencies by Oregon's 1971 Legislative Assembly, the merger of the two in 1991 acknowledged the important link between housing and services. The result today is a department focused on refining that link to better meet the needs of Oregonians in communities around the state.

### Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), the State's economy "grew slower than the U.S. economy in 1998 through 2003." The OEA is forecasting the growth in the Oregon economy in 2004 to again be below U.S. economic growth. However, for the period between 2005 and 2009, the forecast for growth in the Oregon economy is expected to be higher than the U.S. economy. The OEA forecasts employment growth for Oregon to fall by 0.5 percent for 2003, to increase by 1.1 percent in 2004, and to increase by 2.0 percent in 2005.

Personal income is predicted to increase by 2.9 percent in 2003, which is slightly higher than the 2.5 percent increase experienced in 2002. The State Economist predicts both personal income and wage and salary to increase by 4.3 percent in 2004. In 2005, personal

income is projected to increase by 5.2 percent and wage and salary is projected to increase by 5.8 percent. Both of these projections are expected to be equal or higher than the national average in 2005.

The housing market remains the single biggest direct beneficiary of low interest rates. With interest rates hitting all time lows, housing prices are on the rise. In 2002, housing prices increased nationally by 8.9 percent, which was more than 50 percent higher than any of the previous three years. Even though Oregon's increase in housing prices for 2002 equaled only 4.4 percent, the state continues to have some of the least affordable housing markets in the nation. The OEA forecasts housing prices in Oregon to be above the national average for 2004 through 2011. Oregon housing prices are forecasted to increase by 4.1 percent in 2004, and 4.8 percent in 2005, while the national average is projected to only increase by 1.6 percent and 4.4 percent for 2004 and 2005, respectively.

According to the OEA, "If housing costs rise faster in Oregon than in the rest of the nation, companies will face increased difficulties recruiting workers". However, if Oregon can maintain a relative cost advantage in housing in comparison to other western states, this should work to the state's advantage in attracting business and employment growth.

## **Major Initiatives**

### ***Community Solutions Team***

Over the past year, OHCS D has continued to be involved with the Community Solutions Teams (CST). The CST is an inter-agency team that includes the departments of Transportation, Environmental Quality, Land Conservation and Development, and Economic and Community Development, as well as OHCS D. The CST network promotes collaborative problem solving between state agencies and works with local partners to help resolve community development problems.

The CST has continued over this past year to focus on implementing the Oregon Livability Initiative. The 1999 Legislature passed the main elements of the Initiative, which is designed to create jobs in distressed communities, increase the supply of affordable housing, reduce traffic congestion and sprawl, revitalize downtowns, and form community solutions teams throughout the state. Five full-time regional coordinators are now in place, strengthening and working directly with the regional community solutions teams in the field, as well as regional partnerships, local officials, and citizens to help solve community development problems at the local level.

The coordinators also help facilitate collaborative problem solving by providing an additional bridge between state and local agencies. One of the primary initiatives of the Community Solutions Team has been to outline the future of Community Solutions agency coordination and collaboration. The five CST agency directors have identified specific steps they will take to ensure their agency structures and cultures reflect a commitment to solving problems at the local level. OHCS D is providing strong leadership in this area by focusing on developing additional farmworker housing, administering the Community Incentive Fund for community development projects, and developing a housing needs analysis model to help communities determine future housing needs.

### ***Preservation of Affordable Housing***

One of the State's foremost housing problems is in the potential market-rate conversion of existing affordable housing units. Over 13,000 units of affordable housing in Oregon, many which are provided with project-based rental assistance contracts, are at risk of market-rate conversion. Once rental assisted units are converted to market rate rentals, the federal rental subsidy is lost forever. If this trend is allowed to continue, a large percentage of these Oregonian households could potentially become homeless, or, because an increased portion of income is needed for housing, an increased burden will be placed on state and local service providers. OHCS D's goal continues to be to preserve cost effective affordable housing with particular emphasis on housing that contain rent subsidies, in order to preserve affordable housing developments from converting to market-rate units and to create a system for on-going evaluation for tax credit and other expiring-use developments.

During the last year, the Department has developed a list of threatened projects and identified prospective buyers who are willing to keep such housing affordable. OHCS D has collaborated with the Portland USDA Rural Development staff to develop a program for an efficient underwriting and assumption process to increase preservation of projects in rural areas. As a direct result of these efforts, the Department has successfully assisted buyers in acquiring threatened properties and has preserved 419 units of affordable housing, 385 of which carried rental assistance that permitted hundreds of low-income persons and families, as well as the elderly, to remain in their homes.

### ***Farmworker Housing***

OHCS D continues to work diligently in its designated role as the primary state agency for farmworker housing information and other specific duties. During the last two years the Department has focused on development of affordable housing units, rental

assistance, homeownership education, and policy analysis and development. During this time period, OHCS D provided funding for the construction or acquisition of 203 new housing units for farmworkers as well as the rehabilitation of 152 existing farmworker housing units, both of which included appropriate self-sufficiency services. Most recently, the Department was a sponsor for the Latino Home Buying Fair in Portland. This fair was an opportunity for representatives from local lending institutions, real estate agencies, title and home insurance companies, for-profit and non-profit developers, government agencies, and others to share their products and services with potential homeowners. Significantly, as a result of this and other homeownership efforts by the Department, an estimated 500 spanish speaking households completed the ABC's of Homebuying program in Spanish. Finally, in the last fiscal year, OHCS D commissioned and received a statewide enumeration study as well as a study on farmworker services. This information was critical in providing detailed analyses of the need for services as well as the identification of service gaps. Such studies and the information gathered by the Department have been extremely valuable in making decisions on how to effectively allocate funds and resources to meet the housing and service needs of farmworkers.

### ***Regional Housing Centers***

OHCS D strives to identify the most efficient and effective use of taxpayer funds to address anti-poverty issues and community development efforts. We recognize, for example, that public resources are used inefficiently if senior citizens are institutionalized when home repairs or modifications would have allowed them to continue living independently. Similarly, a one-time cost for weatherization may be more efficient than ongoing energy bill payment subsidies. Resources already exist to address these issues, but for rural Oregonians, knowing where and how to access such information and funds can be a challenge.

OHCS D is working to create a "one stop shop" for Oregonians to access programs and products around issues of housing renovation / modification, weatherization, credit counseling and homebuyer education. To maintain programs in rural Oregon, a regional approach is an efficient and effective method for service delivery. In addition, by combining a number of related programs, OHCS D hopes to create a system where taxpayer funded program dollars can be recycled and used repeatedly within a community. As individuals achieve self-sufficiency, their repayments of low or no-interest loans can be used to help others.

In 2002, OHCS D successfully assisted in setting up three regional centers that would serve as prototypes for the projected seven centers the Department felt would be needed around the state. During 2003, OHCS D was able to bring two more regional housing centers on board. Not only will Oregonians directly benefit from the services of regional housing centers, but legislators, partners and community leaders will now be able to direct their constituents and consumers to these local centers to access vital resources.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OHCS D for its annual financial report for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized financial report, whose contents conform to program standards. The annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. OHCS D has received a Certificate of Achievement for the last eight consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation of this report reflects the combined efforts of OHCS D's Financial Management Division staff. It is intended to provide complete and reliable information as a basis for making management decisions and for presenting the financial condition of OHCS D's Enterprise Funds to the officials of the State of Oregon and to the finance community.

We would like to express our gratitude to all OHCS D staff, the State Housing Council, the Community Action Directors of Oregon, and our many partners and advisors who work so diligently to assure the successful operation of OHCS D.

Respectfully submitted,

  
Bob Repine  
Director

  
Rick Crager  
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Oregon Housing and Community Services Department

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*William Patrick Bate*  
President

*Jeffrey R. Emer*  
Executive Director

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Organization Structure

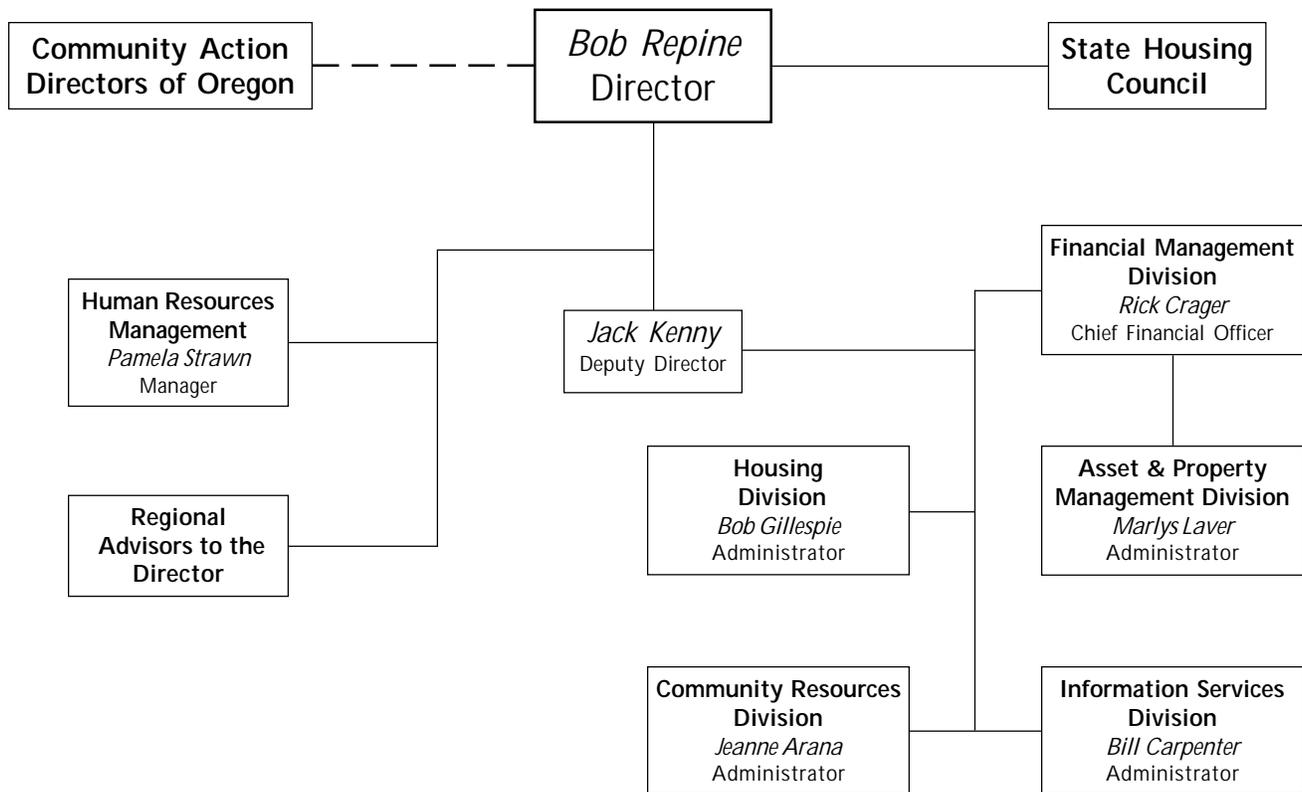


### CADO Executive Committee:

Michael Fieldman, President  
 John Mullin, Vice President  
 Carmen Bojarski, Secretary  
 Jarralyn Ness, Treasurer  
 Doug Bartlett, Member at Large  
 Jim Slusher, Member at Large,  
 Immediate Past President

### Housing Council Members:

Nancy Pope Schlagen, Chair  
 Baltizar "Buz" Ortiz  
 Judith Williams-Pitre  
 Larry Medinger  
 Maggie LaMont  
 Brady Adams  
 Stuart Liebowitz



### Community Action Directors of Oregon

The Community Action Directors of Oregon (CADO) serves in an advisory capacity to the Department on programs which assist the homeless and other at-risk populations to obtain the services and skills necessary to move toward self-reliance. CADO is a private, non-profit association comprised of the Executive Directors of Oregon's Community Action Agencies, the Oregon Human Development Corporation and the associate member agencies which share an interest in promoting the self-sufficiency of lower income persons.

### State Housing Council

The State Housing Council consists of seven members appointed to four year terms by the Governor. Members, who serve on a volunteer basis, come from a variety of occupations and geographical locations. The Council develops policies to stimulate and increase the supply of affordable housing for lower income individuals and families in Oregon. The Council advises the Governor, Legislature, state agencies, and local governments on actions that affect the cost or supply of housing, and adopt rules necessary for the administration and enforcement of OHCS's housing related statutes.

# *Financial Section*



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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

Bob Repine, Director  
Oregon Housing and Community Services Department  
P.O. Box 14508  
Salem, Oregon 97309-0409

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying basic financial statements of the enterprise funds of the State of Oregon, Housing and Community Services Department, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the department's enterprise funds and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the enterprise funds of the State of Oregon Housing and Community Services Department, as of June 30, 2003, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the department's enterprise funds. The introductory section, statistical section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information combining schedules of housing finance fund activities, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003, on our consideration of the State of Oregon, Housing and Community Services Department enterprise funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and trust indentures. 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 audit. That report is separately presented in the other reports section as listed in the table of contents.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury", written in a cursive style.

Bill Bradbury  
Secretary of State

November 20, 2003

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Management's Discussion and Analysis

This section of the Oregon Housing and Community Services Department's (OHCS) Comprehensive Annual Financial Report presents our discussion and analysis of financial performance for the Proprietary Funds during the fiscal year ended June 30, 2003. The selected financial data presented was derived from the financial statements of the Department, which were audited by the Oregon Secretary of State Audits Division.

### FINANCIAL HIGHLIGHTS

- Net assets of the Department increased \$8.2 million, to \$166.5 million as of June 30, 2003. This represents an increase of 5.17%.
- Revenues decreased by \$1.4 million from the previous year's results.
- The Department's outstanding debt of \$1.64 billion on June 30, 2003 increased \$104.2 million from the amount outstanding on June 30, 2002. Debt issuance for the year totaled \$546.2 million (par value).
- Mortgage loan purchases and originations for the year totaled \$127.6 million, down \$17.5 million from 2002. Single Family Programs were down \$25.8 million in purchases and Multifamily Programs were up \$8.3 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to OHCS's basic financial statements. The basic financial statements include proprietary fund financial statements and notes to the financial statements. The Department's basic financial statements do not include department-wide financial statements since only the proprietary funds are audited by the Secretary of State Audits Division. The Department does have a minimal portion of governmental funds that are included in the State of Oregon Comprehensive Annual Financial Report located at <http://scd.das.state.or.us/sars.htm> under 2003 Comprehensive Annual Financial Report.

- The proprietary fund financial statements of the Department include its major enterprise funds, which operate similarly to business activities and for which the Department follows an accrual basis of accounting.
- The notes to the financial statements provide additional information essential to a full understanding of the data provided in the proprietary fund financial statements.

### OVERVIEW OF THE PROPRIETARY FUNDS FINANCIAL POSITION AND OPERATIONS

The Department's total assets at June 30, 2003 were \$1.85 billion, an increase of \$107.5 million from June 30, 2002. The change in assets consists primarily of a \$168.6 million increase in cash and investments and a \$61.4 million decrease in loans receivable. The asset growth was supported by the issuance of \$546.2 million (par value) of mortgage revenue and general obligation bonds, which contributed to a \$104.2 million net increase in bonds payable.

Other liabilities decreased by \$7.9 million. The primary reason for the \$7.9 million decrease in other liabilities was: 1) a \$2.6 million decrease in arbitrage rebate liability due to very low reinvestment rates of bond proceeds; 2) a decrease in accrued interest payable of \$2.9 million resulting from the calling of high rate bonds due to residential loan prepayments and economic refundings; 3) an increase of \$3.8 million in obligations under security lending provided by the Oregon State Treasury and 4) a decrease of \$6.0 million in interfund payables related to the actual transfer of \$3.0 million, per legislative request, from the Housing Finance Fund to the Department's homeless program.

The Department's proprietary fund financial position and operations for the past two years are summarized below based on the information included in the basic financial statements.

**Proprietary Funds  
Statement of Net Assets**

	<b>Business Type Activities</b>		<b>Change</b>	<b>% Change</b>
	<b>2003</b>	<b>2002</b>		
Current and Other Assets	\$ 1,854,526,675	\$ 1,747,014,796	\$ 107,511,879	6.15%
Capital Assets	157,212	177,935	(20,723)	-11.65%
<b>Total Assets</b>	<b>\$ 1,854,683,887</b>	<b>\$ 1,747,192,731</b>	<b>\$ 107,491,156</b>	<b>6.15%</b>
Long Term Debt Outstanding	\$ 1,635,954,116	\$ 1,531,763,222	\$ 104,190,894	6.80%
Other Liabilities	52,227,505	57,109,468	(4,881,963)	-8.55%
<b>Total Liabilities</b>	<b>\$ 1,688,181,621</b>	<b>\$ 1,588,872,690</b>	<b>\$ 99,308,931</b>	<b>6.25%</b>
Net Assets:				
Invested in Capital Assets	\$ 157,212	\$ 177,935	\$ (20,723)	-11.65%
Restricted	161,847,959	152,154,234	9,693,725	6.37%
Unrestricted	4,497,095	5,987,872	(1,490,777)	-24.90%
<b>Total Net Assets</b>	<b>\$ 166,502,266</b>	<b>\$ 158,320,041</b>	<b>\$ 8,182,225</b>	<b>5.17%</b>

● **Cash and Investments**

Total cash and investments at June 30, 2003 increased by \$168.6 million, or 26.5% at June 30, 2003 compared to June 30, 2002. The primary reason for this substantial increase is due to a decrease in the amount of loan originations in the single-family program and the increase of prepayments on higher interest rate residential loans. The decrease in market interest rates created a financial environment that has made it difficult for the Department to make affordable housing loans that were substantially lower in interest rates compared to that of conventional financing. In addition, because of low interest rates, many of the Department's higher rate loans began prepaying. As a result, the Department has had more cash and investments on hand that was either earmarked for making future mortgage loans or calling outstanding bonds. The Department's investment portfolio is comprised of securities of the U.S. Government, certain federal agencies, and repurchase agreements secured by such securities.

● **Loans Receivable**

Total mortgages and other loans receivable decreased \$61.4 million in Fiscal Year 2003. This decrease is attributed to a combination of loan purchases, scheduled repayments, loan prepayments, and foreclosures.

- There was a decrease of \$17.5 million of mortgage loan purchased from Fiscal Year 2002, which was due to \$25.8 million in lower single-family mortgage loan purchases, and \$8.3 million in increased multifamily mortgage loan purchases. Total mortgage loan purchases for Fiscal Year 2003 was \$127.6 million.
- In Fiscal Year 2003 the Department purchased \$7.5 million in multifamily construction loans.
- Other loans in the amount of \$3.8 million were purchased in Fiscal Year 2003. These loans are related to predevelopment, housing development start up, and other program activity.
- Scheduled mortgage and other loan repayments totaled \$29.5 million for Fiscal Year 2003.
- Prepayments on mortgage loans and foreclosures on single family loans both increased substantially from Fiscal Year 2002 to Fiscal Year 2003. Prepayments increased \$87.6 million for a total of \$164.4 million.
- Foreclosures increased \$2.1 million for a total of \$6.4 million.

- **Bonds Payable**

During Fiscal Year 2003, the Department issued \$79.4 million of state general obligation bonds and \$466.8 million of revenue bonds, totaling \$546.2 million (par value). This increased substantially compared to the combined issuance of \$356.8 million in the previous fiscal year. In recent years, the Department has taken advantage of opportunities to retire high interest debt. The Department issues bonds as capital is needed for program purposes and as opportunities for economic refunding occur. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

- **Net Assets**

The Department's financial position improved during Fiscal Year 2003 as shown by the 5.17% increase in net assets. The Department continues to maintain a positive spread of income from investments and mortgage loans to cover bond interest and operating costs.

The results of operations for the Department's proprietary funds are presented below:

Proprietary Funds Statement of Operating Activity				
Business Type Activities				
	2003	2002	Change	% Change
<b>Revenues:</b>				
Elderly and Disabled Housing Fund	\$ 22,810,118	\$ 21,763,453	\$ 1,046,665	4.81%
Housing Finance Fund	78,611,095	81,067,590	(2,456,495)	-3.03%
<b>Total Revenues</b>	<b>101,421,213</b>	<b>102,831,043</b>	<b>(1,409,830)</b>	<b>-1.37%</b>
<b>Expenses:</b>				
Elderly and Disabled Housing Fund	16,414,999	18,914,251	(2,499,252)	-13.21%
Housing Finance Fund	76,823,989	79,286,611	(2,462,622)	-3.11%
<b>Total Expenses</b>	<b>93,238,988</b>	<b>98,200,862</b>	<b>(4,961,874)</b>	<b>-5.05%</b>
<b>Change in Net Assets</b>	<b>8,182,225</b>	<b>4,630,181</b>	<b>3,552,044</b>	<b>76.72%</b>
<b>Net Assets – Beginning</b>	<b>158,320,041</b>	<b>153,689,860</b>	<b>4,630,181</b>	<b>3.01%</b>
<b>Net Assets – Ending</b>	<b>\$ 166,502,266</b>	<b>\$ 158,320,041</b>	<b>\$ 8,182,225</b>	<b>5.17%</b>

The Department's proprietary fund revenue is generated principally from interest earned on mortgages and investments. In Fiscal Year 2003, the Department's revenue generated through proprietary funds totaled \$101.4 million, of which \$97.8 million, or 96.4% is from income earned on mortgages and other loans and investments. Expenses of the Department's proprietary funds consist primarily of interest expense on debt incurred to fund various lending programs. The total expenses for proprietary fund activities total \$93.2 million, of which \$77.2 million, or 82.8% is bond interest expense.

The change in net assets for the year ended June 30, 2003 was \$8.2 million compared to \$4.6 million for the year ending June 30, 2002. Factors contributing to this increase include:

- In Fiscal Year 2003, interest expense on bonds was \$2.5 million less than Fiscal Year 2002. This was primarily due to the Department receiving significant amounts of loan prepayments. With these loan prepayments, OHCS D called the high rate debt that supported the loans and, where eligible, reissued new debt with much lower interest rates for new mortgage loans.
- Total Operating Revenues for Fiscal Year 2003 were down \$1.3 million compared to Fiscal Year 2002. The primary reason for this decrease is due to the reduction of \$1.5 million, or 2%, in interest earned created by a lower amount of outstanding single-family residential loans.

- In Fiscal Year 2002, the Oregon Legislature required OHCS D to make a one-time transfer of \$3.0 million from the Department's proprietary funds to its governmental funds to be used for homeless assistance grants. The Department was not required to make this same transfer in Fiscal Year 2003.

## **Debt Administration**

Oregon statutory provisions authorized the Department to issue up to \$2 billion in revenue bonds to finance the construction, purchase and rehabilitation of housing for lower-income persons and families. The Department also has constitutional authority to issue general obligation bonds to finance housing for elderly and disabled persons. As of June 30, 2003, OHCS D was authorized to issue up to \$1,436,406,940 in general obligation bonds for this purpose.

As of June 30, 2003, OHCS D had a total of \$1,635,899,827 (par value) in outstanding debt. During fiscal year 2003, the Department issued \$458,945,000 (par value) in mortgage revenue bonds for the Single-Family Mortgage Program, \$7,875,000 (par value) in revenue bonds for the Multifamily Housing Revenue Bond Program and \$79,405,000 (par value) in general obligation bonds for the Elderly and Disabled Housing Program.

In addition, the Department issued \$38,250,000 (par value) of Housing Development revenue bonds. These bonds were issued as conduit debt obligations as described in the Notes to the Financial Statements (Note 8) and are not included in the outstanding bonds payable balance of the Department.

The proceeds from the Single-Family Mortgage Program revenue bonds are used to provide below-market interest loans made to low- and moderate-income households. The proceeds from the Multifamily Housing revenue bonds, Housing Development revenue bonds, and the general obligation bonds are used to provide low interest rate financing to developers for new construction, remodeling, and/or acquisition of rental housing. The Multifamily Housing revenue bond and Housing Development revenue bond proceeds finance housing for persons or families with lower and moderate incomes. The general obligation bond proceeds are used for projects housing the elderly and persons with disabilities.

Additional information on the Oregon Housing and Community Services Department's long-term debt can be found in Note 7.

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Balance Sheet

### Proprietary Funds

June 30, 2003

	<b>Business-Type Activities - Enterprise Funds</b>		
	Elderly and Disabled Housing Fund	Housing Finance Fund	Total
<b>Assets</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ -	\$ 4,123,840	\$ 4,123,840
Cash and Cash Equivalents - Restricted	16,339,660	197,139	16,536,799
Investments - Restricted	-	203,954,823	203,954,823
Securities Lending Cash Collateral	6,709,800	2,491,565	9,201,365
Accounts Receivable	334	213,917	214,251
Accrued Interest Receivable	1,489,557	5,778,757	7,268,314
Interfund Receivable	-	1,063	1,063
Prepaid Expenses	-	169	169
Acquired Property	-	2,485,589	2,485,589
<i>Total Current Assets</i>	24,539,351	219,246,862	243,786,213
<i>Noncurrent Assets</i>			
Cash and Cash Equivalents - Restricted	35,037,831	15,025,345	50,063,176
Investments - Restricted	54,331,457	475,721,393	530,052,850
Deferred Charges	2,925,595	11,290,041	14,215,636
Loans Receivable (Net)	222,082,515	794,326,285	1,016,408,800
Capital Assets (Net)	26,917	130,295	157,212
<i>Total Noncurrent Assets</i>	314,404,315	1,296,493,359	1,610,897,674
<b>Total Assets</b>	<b>\$ 338,943,666</b>	<b>\$ 1,515,740,221</b>	<b>\$ 1,854,683,887</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities:</b>			
<i>Current Liabilities</i>			
Accounts Payable	\$ 63,234	\$ 954,343	\$ 1,017,577
Accrued Interest Payable	5,805,207	29,415,877	35,221,084
Obligations Under Securities Lending	6,709,800	2,491,565	9,201,365
Interfund Payable	1,063	-	1,063
Matured Bonds and Interest Payable	384,454	96,086	480,540
Bonds Payable	10,150,000	174,640,000	184,790,000
Deferred Income	1,639	34,287	35,926
Vacation Payable	20,385	275,874	296,259
<i>Total Current Liabilities</i>	23,135,782	207,908,032	231,043,814
<i>Noncurrent Liabilities</i>			
Bonds Payable	274,477,778	1,176,686,338	1,451,164,116
Arbitrage Rebate Liability	93,074	1,989,546	2,082,620
Loans Payable	-	3,891,071	3,891,071
<i>Total Noncurrent Liabilities</i>	274,570,852	1,182,566,955	1,457,137,807
<b>Total Liabilities</b>	<b>297,706,634</b>	<b>1,390,474,987</b>	<b>1,688,181,621</b>
<b>Net Assets:</b>			
Invested in Capital Assets	26,917	130,295	157,212
Restricted	41,210,115	120,637,844	161,847,959
Unrestricted	-	4,497,095	4,497,095
<b>Total Net Assets</b>	<b>41,237,032</b>	<b>125,265,234</b>	<b>166,502,266</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 338,943,666</b>	<b>\$ 1,515,740,221</b>	<b>\$ 1,854,683,887</b>

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

OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2003

	<b>Business-Type Activities - Enterprise Funds</b>		
	Elderly and Disabled Housing Fund	Housing Finance Fund	Total
<b>Operating Revenues:</b>			
Interest on Loans	\$ 16,434,435	\$ 55,031,000	\$ 71,465,435
Investment Income	6,056,056	20,281,908	26,337,964
Transfer/Commitment Fees	117,139	934,655	1,051,794
Administrative Charges and Fees	197,368	1,090,196	1,287,564
Low Income Housing Tax Credit Fees	-	1,117,418	1,117,418
Gain on Sale of Foreclosed Property	-	118,817	118,817
Miscellaneous Revenue	5,120	37,101	42,221
<b>Total Operating Revenues</b>	<b>22,810,118</b>	<b>78,611,095</b>	<b>101,421,213</b>
<b>Operating Expenses:</b>			
Personal Services	839,733	4,958,454	5,798,187
Services and Supplies	25,202	2,827,312	2,852,514
Mortgage Service Fees	87,496	2,596,771	2,684,267
Foreclosure Costs	-	214,332	214,332
Real Estate Owned Expenses	-	646	646
Interest Expense - Bonds	14,841,265	62,316,736	77,158,001
Interest Expense - Loans	-	129,231	129,231
Interest Expense - Securities Lending	82,559	76,517	159,076
Other Related Program Expenses	323,912	2,424,937	2,748,849
Amortization of Deferred Bond Issuance Costs	211,428	1,163,872	1,375,300
Depreciation/Amortization	16,804	87,272	104,076
Bad Debt Expense	(13,400)	27,909	14,509
<b>Total Operating Expenses</b>	<b>16,414,999</b>	<b>76,823,989</b>	<b>93,238,988</b>
<b>Operating Income (Loss)</b>	<b>6,395,119</b>	<b>1,787,106</b>	<b>8,182,225</b>
<b>Income (Loss) Before Transfers</b>	<b>6,395,119</b>	<b>1,787,106</b>	<b>8,182,225</b>
Transfers from Other Funds	-	207,194	207,194
Transfers to Other Funds	(207,194)	-	(207,194)
<b>Change in Net Assets</b>	<b>6,187,925</b>	<b>1,994,300</b>	<b>8,182,225</b>
<b>Net Assets - Beginning</b>	<b>35,049,107</b>	<b>123,270,934</b>	<b>158,320,041</b>
<b>Net Assets - Ending</b>	<b>\$ 41,237,032</b>	<b>\$ 125,265,234</b>	<b>\$ 166,502,266</b>

*The accompanying notes are an integral part of the financial statements.*

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2003

	<b>Business-Type Activities - Enterprise Funds</b>		
	Elderly and Disabled Housing Fund	Housing Finance Fund	Total
<b><u>Cash Flows from Operating Activities:</u></b>			
Received from Customers	\$ 314,507	\$ 3,204,046	\$ 3,518,553
Program Loan Principal Repayments	7,053,953	190,998,365	198,052,318
Program Loan Interest Received	16,412,167	55,346,292	71,758,459
Program Loans Made	(2,619,450)	(136,303,354)	(138,922,804)
Payments to Employees for Services	(911,695)	(4,850,627)	(5,762,322)
Payments to Suppliers for Goods and Services	(193,225)	(5,628,949)	(5,822,174)
Other Receipts (Payments)	(208,500)	(2,399,854)	(2,608,354)
Net Cash Provided (Used) in Operating Activities	19,847,757	100,365,919	120,213,676
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>			
Proceeds from Bond Sales	79,405,000	466,820,000	546,225,000
Principal Payments on Bonds	(66,785,000)	(374,410,000)	(441,195,000)
Interest Payments on Bonds	(15,241,136)	(64,187,980)	(79,429,116)
Bond Issue Costs	(816,834)	(2,295,486)	(3,112,320)
Bond Call Costs	(1,138,986)	(4,050)	(1,143,036)
Loan Proceeds	-	3,101,877	3,101,877
Principal Payments on Loans	-	(3,210,806)	(3,210,806)
Interest Payments on Loans	-	(129,263)	(129,263)
Transfers from Other Funds	-	207,194	207,194
Transfers to Other Funds	(207,194)	-	(207,194)
Net Cash Provided (Used) in Noncapital Financing Activities	(4,784,150)	25,891,486	21,107,336
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Acquisition of Capital Assets	(9,389)	(73,964)	(83,353)
Net Cash Provided (Used) in Capital and Related Financing Activities	(9,389)	(73,964)	(83,353)
<b><u>Cash Flows from Investing Activities:</u></b>			
Purchase of Investments	(33,425,619)	(1,426,017,530)	(1,459,443,149)
Proceeds from Sales and Maturities of Investments	9,342,347	1,280,257,614	1,289,599,961
Interest on Cash and Investments	2,617,257	17,776,135	20,393,392
Investment Income on Securities Lending	82,559	76,517	159,076
Interest Paid on Securities Lending	(82,559)	(76,517)	(159,076)
Net Cash Provided (Used) in Investing Activities	(21,466,015)	(127,983,781)	(149,449,796)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(6,411,797)</b>	<b>(1,800,340)</b>	<b>(8,212,137)</b>
<b>Cash and Cash Equivalents Balance - Beginning</b>	<b>57,789,288</b>	<b>21,146,664</b>	<b>78,935,952</b>
<b>Cash and Cash Equivalents Balance - Ending</b>	<b>\$ 51,377,491</b>	<b>\$ 19,346,324</b>	<b>\$ 70,723,815</b>
Cash and Cash Equivalents	\$ -	\$ 4,123,840	\$ 4,123,840
Cash and Cash Equivalents - Restricted (Current)	16,339,660	197,139	16,536,799
Cash and Cash Equivalents - Restricted (Noncurrent)	35,037,831	15,025,345	50,063,176
<b>Total Cash and Cash Equivalents</b>	<b>\$ 51,377,491</b>	<b>\$ 19,346,324</b>	<b>\$ 70,723,815</b>

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	<b>Business-Type Activities - Enterprise Funds</b>		
	Elderly and Disabled Housing Fund	Housing Finance Fund	Total
<b>Reconciliation of Operating Income to</b>			
<b><u>Net Cash Provided by Operating Activities:</u></b>			
Operating Income (Loss)	\$ 6,395,119	\$ 1,787,106	\$ 8,182,225
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation/Amortization	16,804	87,272	104,076
Amortization of Deferred Bond Issuance Costs	211,428	1,163,872	1,375,300
Bad Debt Expense	(13,400)	27,909	14,509
Investment Income Reported as Operating Revenue	(6,056,056)	(20,281,908)	(26,337,964)
Interest Expense Reported as Operating Expense	14,923,824	62,522,484	77,446,308
Bond Call Expenses	110,086	1,301,305	1,411,391
(Increase)/Decrease in Assets:			
Loan Interest Receivable	(22,489)	306,467	283,978
Accounts Receivable	543	(33,079)	(32,536)
Interfund Receivable	357	24,778	25,135
Prepaid Expenses	30	15,296	15,326
Loans Receivable	4,434,503	56,966,551	61,401,054
Acquired Property	-	(626,933)	(626,933)
Increase/(Decrease) in Liabilities:			
Accounts Payable	(60,165)	(2,962,492)	(3,022,657)
Interfund Payable	(24,778)	(357)	(25,135)
Deferred Income	220	8,822	9,042
Vacation Payable	(68,269)	58,826	(9,443)
<b>Net Cash Provided (Used) in Operating Activities</b>	<b>\$ 19,847,757</b>	<b>\$ 100,365,919</b>	<b>\$ 120,213,676</b>
<b><u>Noncash Investing, Capital, and Financing Activities:</u></b>			
Net Change in Fair Value of Investments	\$ 3,093,197	\$ 5,680,108	\$ 8,773,305
Foreclosed Property	-	6,369,935	6,369,935
<b>Total Noncash Investing, Capital, and Financing Activities</b>	<b>\$ 3,093,197</b>	<b>\$ 12,050,043</b>	<b>\$ 15,143,240</b>

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

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Notes to the Financial Statements

### Enterprise Funds

June 30, 2003

The accompanying financial statements of the Oregon Housing and Community Services Department (OHCS D) have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed for the proprietary fund financial statements to the extent that those standards do not conflict with or contradict GASB pronouncements.

#### **NOTE 1. Summary of Significant Accounting Policies**

##### **A. Reporting Entity**

OHCS D is a part of the State of Oregon reporting entity. OHCS D currently operates under the provisions of Sections 456.515 to 456.725 of the Oregon Revised Statutes.

Through sales of bonds, OHCS D finances home ownership and multi-family units for elderly, disabled, and lower to moderate-income persons. OHCS D has issued \$185,135,000 in revenue bonds for the Assisted or Insured Multi-Unit Program, \$138,230,000 in revenue bonds for Multifamily Housing Revenue Bonds, and \$3,395,594,183 in revenue bonds for the Single-Family Mortgage Program (\$511,644,681 in Housing Finance Revenue Bonds and \$2,883,949,502 in Mortgage Revenue Bonds). OHCS D has issued \$559,775,000 in State of Oregon general obligation bonds for the Elderly and Disabled Housing Program. State of Oregon general obligation bonds are authorized by Oregon Constitution Article XI-I(2).

The financial statements and notes include only the bonded debt financial activity of OHCS D. OHCS D operates other programs which have no impact on the bond related activity of OHCS D.

##### **B. Basis of Presentation - Fund Accounting**

OHCS D programs and accounts are organized by "funds," each of which is a separate accounting entity. Each major program utilizes a separate set of self-balancing accounts to record the assets, liabilities, net assets, revenues, and expenses of their activities. All bond programs are classified in proprietary funds. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. All bond programs of OHCS D are accounted for in the Enterprise Funds.

##### **Proprietary Fund**

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. OHCS D utilizes two enterprise funds which are differentiated primarily by the type of bond financing employed to support their respective programs:

- (1) The Elderly and Disabled Housing Program accounts for activities, including applicable administrative costs, that are primarily financed by general obligation bonds of the State of Oregon. The proceeds from the sale of the general obligation bonds are used to finance housing units for elderly and disabled persons.
- (2) The Housing Finance Fund accounts for programs that are supported by revenue bond financing, including the Assisted or Insured Multi-Unit, Multifamily Housing, and Single-Family Mortgage Programs. Revenue bond proceeds are used to finance home ownership and multi-family units for lower and moderate income persons. Also part of the Housing Finance Fund are the Combined Program Account and the Housing Finance Account. The Combined Program Account is maintained to act as a reserve against possible

deficiencies that may arise in the payment of debt service or related expenses of the Assisted or Insured Multi-Unit and Single-Family Mortgage Programs. General and administrative costs of these programs are accounted for in the Housing Finance Account. In addition, fees or other monies received by OHCS D in carrying out the responsibilities outlined under Oregon Revised Statutes 456.550 to 456.725 are also included in the Housing Finance Account.

### **C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time related liabilities are incurred. All assets and liabilities associated with the operations of these funds are included on the balance sheet. Assets and liabilities are segregated between current and non-current. Net total assets are segregated into capital assets, net of related debt; restricted assets; and unrestricted assets. Proprietary fund Statement of Revenues, Expenses and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. This statement segregates operating revenue, operating expenses, non-operating revenue and expense, and capital contributions and transfers.

### **D. Budgets**

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to limitation and bond related expenses are subject to administrative limitation. Both types of limitation lapse at the end of the biennium. Budgets are adopted on a basis which differs from generally accepted accounting principles and financial reporting standards in the treatment of bond proceeds and loan purchases. For budgetary purposes, these transactions are treated on a cash basis and other operating revenues and expenses are on an accrual basis.

### **E. Cash Equivalents**

For purposes of the Statement of Cash Flows, all OHCS D moneys held in the State Treasury Oregon Short Term Fund and moneys held in money market funds are considered to be cash equivalents. All short term U.S. Treasury and U.S. Agency securities and repurchase agreements are considered to be investments.

### **F. Investments**

OHCS D's investments are stated at fair value. Investment fair value is determined using quoted market prices. Securities lending cash collateral reinvested by the State Treasury Oregon Short Term Fund in short-term debt investments with remaining maturities of up to ninety days on June 30, 2003 is reported at amortized cost.

### **G. Receivables**

Receivables are shown net of an allowance for uncollectible accounts. Receivables included are amounts due that represent revenues earned or accrued in the current period. Types included in this classification relate to interest, mortgage loans receivable, and other miscellaneous receivables.

### **H. Short-term Interfund Receivable/Payable**

During the course of operations, many transactions occur between individual funds for various reasons. These receivable and payable transactions are classified as "Interfund Receivable" and "Interfund Payable" on the balance sheet.

**I. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items.

**J. Acquired Property**

Acquired properties resulting from mortgage foreclosures are stated at the lower of cost or fair market value. Cost is defined as the outstanding balance of the mortgage loan, plus major repairs, less any mortgage insurance payments received. Costs relating to the acquisition of such properties are charged to expense as they are incurred.

**K. Capital Assets**

Capital assets are reported at historical cost or estimated historical cost if the original cost is not determinable. Donated capital assets are reported at their estimated fair market value at the time received. Capital assets costing less than \$5,000 or having a useful life of less than two years are not capitalized.

Depreciation or amortization of capital assets is charged as an expense against operations over the estimated useful life using the straight-line method of depreciation. The estimated useful life of all capital assets is three years.

**L. Deferred Charges**

Bond issuance costs, including underwriters' discounts, are reflected as deferred charges and amortized over the term of the related bond issue using the bonds-outstanding method of amortization.

**M. Restricted Assets**

The use of all cash, cash equivalents, and investments of the Enterprise Fund are generally restricted as to purpose and use by the Bond Declarations and Indentures of Trust. The bond program funds are restricted for acquisition of loans, payment of debt service, and payment of operating costs. Individual reserve accounts have been established to meet certain requirements and the balances of these accounts as of June 30, 2003 were sufficient to meet all legal requirements. When both restricted and unrestricted resources are available to use, it is OHCS D's policy to use restricted resources before using unrestricted resources.

**N. Compensated Absences**

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to the employees. No liability is recorded for accumulated sick pay benefits.

**O. Rebatable Arbitrage**

Internal Revenue Code (IRC) Section 148(f) requires issuers of tax-exempt bonds to rebate investment income earned from bond proceeds that exceed limits established for each bond issue. These limits are based on the bond yield as calculated for federal tax purposes for each bond issue and are subject to certain exceptions. Arbitrage rebate payments are due not later than 60 days after the end of the fifth anniversary of each bond issue (or other date in compliance with IRC Section 148(f)) and every five years thereafter in an amount at least equal to 90 percent of the calculated arbitrage liability. Final arbitrage rebate payments are due not later than 60 days after the final retirement of all bonds in an issue in an amount equal to 100 percent of the calculated arbitrage liability. OHCS D records rebatable arbitrage as a reduction of investment revenue.

**P. Bond Discounts, Premiums, and Interest Accretion**

Bond discount or premium arising from the sale of serial or term bonds is charged or credited to interest expense over the life of the related bond issue using the bonds-outstanding method of amortization.

The capital appreciation bonds increase in value based on the initial yield to maturity as set forth in Accreted Value Tables in the bond issue's Official Statement. This increase in value is reflected as increased liability in bonds payable on the Balance Sheet and as interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

**Q. Operating Revenues and Expenses**

Operating revenues include interest and fees on program loans as well as earnings on cash and investments related to OHCSD's loan programs. Administrative expenses, depreciation and amortization of capital assets, and bond program related expenses are considered operating expenses. Nonoperating revenues and expenses include any gain or loss on the disposition of capital assets.

**R. Deferred Amount on Debt Refunding**

Deferred Amount on Debt Refunding is reflected as a reduction to Bonds Payable and is amortized over the shorter of the term of the refunding or refunded bonds using the bonds-outstanding method of amortization. The bonds-outstanding method of amortization most closely approximates the effective-interest method.

**NOTE 2. Cash and Cash Equivalents, Investments, and Securities Lending**

Deposits: At June 30, 2003, the book balance of cash and cash equivalents was \$70,723,815. The bank balance was \$66,475,814. Monies held in demand accounts with the State Treasurer and amounts invested in the Oregon Short Term Fund totaled \$70,072,470. State Treasurer demand deposit accounts and time certificates of deposit investments of the Short Term Fund held in state banks are insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute. The bank balance of money market accounts held by the Bond Trustees as agents totaled \$(4,076,512). Cash with Fiscal Agent was \$479,856, of which \$95,402 was held by the bond trustees and \$384,454 held by Bank of New York. The funds held by the trustees are collateralized with securities held by their Trust Departments, but not in the State's name. The funds held by Bank of New York are backed by the faith and credit of Bank of New York, and are neither insured nor collateralized.

Securities in the Short Term Fund are held by the Treasury's agent in the name of the State of Oregon. They consist of 30 percent in government securities and 70 percent in time certificates of deposit, bankers acceptances, and other short-term commercial paper. Earnings on the Short Term Fund are allocated based on daily account balances.

Cash	\$ 70,152,149
Cash with Fiscal Agent	479,856
Money Market Accounts held by Bond Trustees	91,810
Total Cash and Cash Equivalents	<u>\$ 70,723,815</u>
<u>Balance Sheet Amounts:</u>	
Cash and Cash Equivalents – Current	\$ 4,123,840
Restricted Cash and Cash Equivalents – Current	16,536,799
Restricted Cash and Cash Equivalents – Noncurrent	50,063,176
Total Cash and Cash Equivalents	<u>\$ 70,723,815</u>

Investments: The Bond Indentures authorize OHCSD to invest in direct obligations of, or obligations guaranteed by, the United States of America; bonds, debentures, notes, participation certifications, or other similar obligations issued by specified Federal Agencies; specified Public Housing Bonds; direct and general obligations of or obligations guaranteed by the State; investment agreements, secured or unsecured, with any institution whose debt securities are rated at least

Notes to the Financial Statements (Continued)  
June 30, 2003

equal to the then existing rating on the bonds by the rating agencies; and deposits in interest-bearing time or demand deposits, or certificates of deposit secured by obligations described above. These are permissible investments under State statute. The Elderly and Disabled Housing Program Indenture also permits other investments for the State of Oregon under this statute.

Investments at year-end included \$54,331,457 held by the State Treasurer in U.S. Treasury securities. Investments with the State Treasurer are held with the State Treasurer's agent in the name of the State of Oregon and segregated in the Treasurer's records in OHCS D's name.

Additional investments were held by the Trust Departments of the Bond Trustees as agents in OHCS D's name. Total Trust Departments' investments consisted of \$558,631,216 in U.S. government securities and \$121,045,000 in repurchase agreements.

OHCS D's investments are categorized below to give an indication of the level of risk assumed by OHCS D at year-end. Category 1 includes investments that are insured or registered, with securities held by OHCS D or its agent in OHCS D's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in OHCS D's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty or by its trust department or agent but not in OHCS D's name.

	Risk Category			Reported Amount	Fair Value
	- 1 -	- 2 -	- 3 -		
U.S. Government and Agency Securities	\$ 612,962,673	\$ -	\$ -	\$ 612,962,673	\$ 612,962,673
Repurchase Agreements	121,045,000	-	-	121,045,000	121,045,000
Subtotal	<u>\$ 734,007,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 734,007,673</u>	<u>\$ 734,007,673</u>
Not Categorized:					
Securities Lending short-term collateral Investment Pool				9,212,675	9,212,675
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government and Agency Securities				8,945,140	8,945,140
Subtotal				<u>\$ 752,165,488</u>	<u>\$ 752,165,488</u>
Less: Balances treated as Cash and Cash Equivalents on the Balance Sheet				(9,212,675)	(9,212,675)
Less: Balances treated as Securities Lending Cash Collateral on the Balance Sheet				(8,945,140)	(8,945,140)
Total Investments				<u>\$ 734,007,673</u>	<u>\$ 734,007,673</u>

Securities Lending: In accordance with State of Oregon investment policies, state agencies may participate in securities lending. The State has, through Securities Lending Authorization Agreements, authorized its custodians to lend the State's securities pursuant to a form of loan agreement. There have been no significant violations of the provisions of securities lending agreements during the period of these financial statements.

During the year, the State's custodian lent short-term and fixed income securities and received as collateral U.S. dollar cash. Borrowers were required to deliver collateral for each loan equal to 102 percent of the market value of the loaned security. Cash collateral is invested in a short-term investment fund maintained by the custodian. Securities lent at year-end for cash collateral and cash collateral invested in a short-term investment fund maintained by the custodial agent are both presented as "Not Categorized" in the preceding schedule of investments. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default and the State did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The State, through its Securities Lending Agreements, is fully indemnified against borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally do not match the maturities of their securities loans. On June 30, 2003, the State had no credit risk exposure to borrowers. On June 30, 2003, OHCS D had no securities on loan.

OHCS D's cash balances are invested in the Oregon Short Term Fund (OSTF), as is the cash of other state agencies. As of June 30, 2003, the fair value of all securities on loan from OSTF was \$938,276,842. The total cash collateral received for

Notes to the Financial Statements (Continued)  
June 30, 2003

the securities on loan from OSTF on June 30, 2003 was \$965,152,800. The fair value of all investments made with the cash collateral received for those securities on loan was \$966,339,137. OHCS D's allocated portion of the securities on loan and the related collateral is presented in the preceding schedule of investments.

**NOTE 3. Loans Receivable**

Loans receivable on June 30, 2003, consisted of:

	Loans Receivable	Less: Allowance for Uncollectible Accounts	Loans Receivable (Net)
Elderly and Disabled Housing Fund:	\$ 223,168,761	\$ (1,086,246)	\$ 222,082,515
Housing Finance Fund:			
Housing Finance Revenue Bonds	11,611,370	-	11,611,370
Mortgage Revenue Bonds	620,122,142	-	620,122,142
Assisted or Insured Multi-Unit Program	46,116,482	(98,270)	46,018,212
Multifamily Housing Revenue Bonds	111,477,648	(223,631)	111,254,017
Housing Finance Account	5,347,079	(26,535)	5,320,544
Total Housing Finance Fund	794,674,721	(348,436)	794,326,285
Total	\$ 1,017,843,482	\$ (1,434,682)	\$ 1,016,408,800

The Elderly and Disabled Housing Program provides permanent mortgage financing for the construction or rehabilitation of structures or facilities which serve elderly or disabled persons.

The Single-Family Mortgage Program (Housing Finance Revenue Bonds and Mortgage Revenue Bonds) provides financing for single-family homes for below median income home buyers. These loans are collateralized by first lien mortgages on the applicable real estate. Of the total mortgage principal balance outstanding, 75 percent is federally insured or guaranteed, 16 percent is covered by pool insurance and/or private mortgage insurance and 9 percent is uninsured. Based on prior experience, OHCS D does not anticipate any material loss in the collection of mortgage loans receivable or in the disposition of acquired properties.

The Assisted or Insured Multi-Unit Program provides permanent mortgage financing to qualified sponsors of multi-unit housing developments for persons of lower income within the State of Oregon. The mortgage loans made under this program must either be federally insured or made to finance housing for persons eligible for federal or state housing assistance.

Multifamily Housing Revenue Bonds finance mortgage loans for multi-family housing developments within the State that primarily contain housing units for persons or families of lower and moderate income.

OHCS D uses the allowance method to estimate uncollectible mortgage loans receivable. The composition of the loan portfolio is evaluated considering past loss experience, current economic conditions, amount of mortgage insurance, and the likelihood of properties being foreclosed upon. This evaluation, in management's judgment, is adequate to provide for potential losses.

**NOTE 4. Capital Assets**

A summary of OHCS D's capital assets at June 30, 2003 is presented in the table below. OHCS D has no outstanding debt related to capital assets.

	Beginning Balance	Increases	Decreases	Ending Balance
Elderly and Disabled Housing Fund:				
Equipment/Furniture	\$ 1,474	\$ -	\$ -	\$ 1,474
Data Processing Hardware	43,582	-	-	43,582
Data Processing Software	-	9,389	-	9,389
Leasehold Improvements	7,219	-	-	7,219
Less Accumulated Depreciation/Amortization	(17,943)	(16,804)	-	(34,747)
Total	\$ 34,332	\$ (7,415)	\$ -	\$ 26,917

Notes to the Financial Statements (Continued)  
June 30, 2003

	Beginning Balance	Increases	Decreases	Ending Balance
Housing Finance Fund:				
Equipment/Furniture	\$ 242,060	\$ -	\$ -	\$ 242,060
Data Processing Hardware	885,996	-	(66,102)	819,894
Data Processing Software	203,073	73,964	(51,360)	225,677
Leasehold Improvements	61,759	-	-	61,759
Less Accumulated Depreciation/Amortization	(1,249,285)	(87,272)	117,462	(1,219,095)
Total	\$ 143,603	\$ (13,308)	\$ -	\$ 130,295

**NOTE 5. Interfund Balances and Transfers**

The following schedule summarizes interfund receivables and payables for the year ended June 30, 2003:

Elderly and Disabled Housing Fund:	
Due from Housing Finance Fund	\$ 1,063
Total Interfund Receivable	\$ 1,063
Housing Finance Fund:	
Due to Elderly and Disabled Housing Fund	\$ 1,063
Total Interfund Payable	\$ 1,063

All balances between funds are the result of timing differences related to the reallocation of expense.

The following schedule summarizes transfers for the year ended June 30, 2003:

Elderly and Disabled Housing Fund:	
Transfer from Housing Finance Fund	\$ 207,194
Total Transfer In	\$ 207,194
Housing Finance Fund:	
Transfer to Elderly and Disabled Housing Fund	\$ (207,194)
Total Transfer Out	\$ (207,194)

The transfer from the Elderly and Disabled Housing Fund to the Housing Finance Fund helps to provide housing for very low income Oregonians.

**NOTE 6. Changes in Long Term Liabilities**

Long term liability activity for the fiscal year is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 1,531,763,222	\$ 544,662,751	\$ 440,471,857	\$ 1,635,954,116	\$ 184,790,000
Arbitrage Rebate Liability	4,723,376	567,722	3,208,478	2,082,620	1,532,035
Loans Payable	4,000,000	3,101,877	3,210,806	3,891,071	667,000
Total Long Term Liabilities	\$ 1,540,486,598	\$ 548,332,350	\$ 446,891,141	\$ 1,641,927,807	\$ 186,989,035

**NOTE 7. Long Term Debt**

The following table summarizes outstanding bonds by program and series as of June 30, 2003:

**General Obligation Bonds**

**Elderly and Disabled Housing Program**

Series	Due Dates	Original Issue			Bonds Outstanding			Ending Balance	Due Within One Year
		Interest From	Range To	Amount	Beginning Balance	Increases	Decreases		
1992 A	1993-2013	3.300	6.250%	\$ 11,985,000	\$ 8,440,000	\$ -	\$ 500,000	\$ 7,940,000	\$ 525,000
1992 B	1993-2024	3.300	6.375%	56,505,000	49,280,000	-	38,920,000	10,360,000	235,000
1992 C	1993-2022	3.300	6.500%	14,695,000	11,770,000	-	11,130,000	640,000	15,000
1992 D	1993-2022	3.400	6.600%	9,020,000	7,710,000	-	7,710,000	-	-
1993 A	1995-2024	3.400	5.700%	11,140,000	9,490,000	-	225,000	9,265,000	240,000
1993 B	1994-2026	2.700	5.500%	11,060,000	9,785,000	-	200,000	9,585,000	210,000
1993 C	1994-2026	2.850	5.650%	13,915,000	12,620,000	-	755,000	11,865,000	275,000
1994 A	1995-2025	3.500	6.150%	9,440,000	2,705,000	-	50,000	2,655,000	55,000
1994 B	1996-2026	4.200	6.300%	24,400,000	21,685,000	-	390,000	21,295,000	415,000
1995 A	1996-2026	4.000	6.000%	14,100,000	11,890,000	-	225,000	11,665,000	240,000
1995 B	1997-2027	4.000	5.700%	24,240,000	17,235,000	-	1,360,000	15,875,000	320,000
1996 A	1998-2027	4.050	5.600%	2,850,000	1,595,000	-	345,000	1,250,000	735,000
1996 B	1998-2027	4.200	5.800%	10,605,000	9,950,000	-	295,000	9,655,000	190,000
1997 A	1999-2028	4.050	5.375%	8,475,000	8,020,000	-	165,000	7,855,000	175,000
1998 A	2000-2029	3.400	4.500%	8,870,000	5,890,000	-	1,095,000	4,795,000	1,130,000
1998 B	2001-2030	3.550	4.875%	10,285,000	10,125,000	-	165,000	9,960,000	175,000
1998 C	2000-2029	4.900	6.000%	1,880,000	1,410,000	-	250,000	1,160,000	265,000
1999 A	2000-2030	3.250	5.150%	10,840,000	8,275,000	-	860,000	7,415,000	895,000
1999 B	2000-2031	3.350	5.250%	4,485,000	4,400,000	-	70,000	4,330,000	75,000
1999 C	2000-2005	5.400	6.160%	1,335,000	935,000	-	215,000	720,000	225,000
1999 D	2000-2030	3.950	6.000%	5,695,000	4,020,000	-	480,000	3,540,000	525,000
1999 E	2001-2031	5.000	6.250%	19,105,000	18,850,000	-	340,000	18,510,000	275,000
1999 F	2000-2006	6.250	7.000%	1,375,000	1,075,000	-	205,000	870,000	225,000
2001 A	2002-2032	2.550	5.100%	5,210,000	5,210,000	-	85,000	5,125,000	90,000
2001 B	2002-2020	2.550	4.950%	7,805,000	7,805,000	-	205,000	7,600,000	220,000
2001 C	2002-2032	2.700	5.300%	25,325,000	25,325,000	-	545,000	24,780,000	570,000
2002 A	2003-2022	1.400	4.650%	10,840,000	-	10,840,000	-	10,840,000	410,000
2002 B	2003-2024	1.400	4.700%	37,905,000	-	37,905,000	-	37,905,000	1,240,000
2002 C	2003-2043	1.600	5.050%	13,595,000	-	13,595,000	-	13,595,000	200,000
2003 A	2004-2024	1.150	4.650%	7,800,000	-	7,800,000	-	7,800,000	-
2003 B	2004-2024	1.300	4.800%	9,265,000	-	9,265,000	-	9,265,000	-
<i>Total General Obligation Bonds</i>					\$ 275,495,000	\$ 79,405,000	\$ 66,785,000	\$ 288,115,000	\$ 10,150,000

**Revenue Bonds**

**Housing Finance Revenue Bonds**

Series	Due Dates	Original Issue			Bonds Outstanding			Ending Balance	Due Within One Year
		Interest From	Range To	Amount	Beginning Balance	Increases	Decreases		
1977 A	1979-2009	4.550	8.000%	\$ 43,800,000	\$ 8,630,000	\$ -	\$ 1,110,000	\$ 7,520,000	\$ 1,065,000
<i>Total Housing Finance Revenue Bonds</i>					\$ 8,630,000	\$ -	\$ 1,110,000	\$ 7,520,000	\$ 1,065,000

**Mortgage Revenue Bonds**

Series	Due Dates	Original Issue		Amount	Bonds Outstanding			Ending Balance	Due Within One Year
		Interest Rate	Range		Beginning Balance	Increases	Decreases		
1991 D	1993-2027	4.750	6.800%	\$ 21,250,000	\$ 19,215,000	\$ -	\$ 295,000	\$ 18,920,000	\$ 315,000
1992 A	1994-2016	4.500	6.800%	32,874,827	3,354,827	-	-	3,354,827	-
1992 B	2028	6.875	6.875%	47,670,000	29,325,000	-	12,050,000	17,275,000	-
1992 C	1994-2016	2.400	5.550%	20,585,000	9,980,000	-	1,165,000	8,815,000	410,000
1992 D	2019	5.650	5.650%	4,415,000	2,200,000	-	2,015,000	185,000	-
1993 A	1994-2024	2.750	5.450%	36,720,000	25,525,000	-	1,705,000	23,820,000	1,790,000
1993 B	1995-2017	3.250	5.375%	18,795,000	10,610,000	-	1,950,000	8,660,000	450,000
1994 A	1995-2018	3.750	6.400%	18,150,000	9,610,000	-	2,555,000	7,055,000	70,000
1994 B	2024	5.850	5.850%	6,850,000	505,000	-	505,000	-	-
1994 C	1996-2016	4.200	6.250%	12,440,000	7,810,000	-	2,175,000	5,635,000	205,000
1994 D	2020-2024	6.125	6.500%	10,610,000	2,730,000	-	1,340,000	1,390,000	-
1995 A	1996-2026	4.400	6.450%	25,000,000	16,605,000	-	4,415,000	12,190,000	285,000
1995 B	1997-2012	3.900	6.000%	9,800,000	6,165,000	-	2,650,000	3,515,000	345,000
1995 C	2015-2026	6.200	6.400%	20,200,000	11,965,000	-	2,035,000	9,930,000	-
1995 E	1997-2027	4.000	6.000%	25,000,000	17,520,000	-	4,320,000	13,200,000	330,000
1996 A	2008-2016	5.500	6.000%	6,465,000	5,765,000	-	2,315,000	3,450,000	-
1996 B	1998-2027	4.200	6.200%	18,535,000	11,700,000	-	2,635,000	9,065,000	330,000
1996 D	1998-2027	4.300	6.375%	27,300,000	19,460,000	-	7,270,000	12,190,000	175,000
1996 H	1998-2027	4.050	6.000%	27,300,000	21,775,000	-	4,690,000	17,085,000	385,000
1997 A	1999-2027	4.600	6.200%	25,000,000	21,080,000	-	5,560,000	15,520,000	335,000
1997 E	1999-2015	3.900	5.250%	8,475,000	7,195,000	-	390,000	6,805,000	410,000
1997 F	2017-2028	5.500	5.650%	14,025,000	13,620,000	-	435,000	13,185,000	-
1997 G	2028	6.700	6.700%	7,500,000	3,810,000	-	2,570,000	1,240,000	40,000
1997 H	1999-2028	4.000	5.650%	33,570,000	30,880,000	-	4,515,000	26,365,000	465,000
1997 I	2028	6.640	6.640%	7,500,000	4,070,000	-	1,100,000	2,970,000	70,000
1998 A	2000-2015	4.000	5.150%	10,655,000	9,275,000	-	1,935,000	7,340,000	475,000
1998 B	2018-2029	4.900	5.450%	19,345,000	16,740,000	-	2,165,000	14,575,000	-
1998 D	2000-2029	3.850	5.300%	35,000,000	32,420,000	-	4,050,000	28,370,000	520,000
1998 G	2000-2029	3.650	5.250%	35,000,000	30,840,000	-	3,425,000	27,415,000	530,000
1999 A	2001-2027	3.600	5.150%	25,480,000	23,895,000	-	1,270,000	22,625,000	510,000
1999 B	2030	5.250	5.250%	5,450,000	4,700,000	-	1,075,000	3,625,000	-
1999 E	2019-2027	4.850	5.400%	20,350,000	19,170,000	-	2,195,000	16,975,000	-
1999 F	2001-2028	3.850	5.500%	14,650,000	13,580,000	-	1,915,000	11,665,000	650,000
1999 I	2001-2020	4.100	5.550%	25,555,000	24,415,000	-	6,400,000	18,015,000	765,000
1999 J	2023-2030	5.200	5.750%	29,320,000	28,030,000	-	5,635,000	22,395,000	-
1999 L	2013-2020	5.750	6.050%	10,000,000	9,655,000	-	6,745,000	2,910,000	-
1999 M	2002-2031	4.650	6.200%	32,260,000	30,410,000	-	3,850,000	26,560,000	510,000
2000 A	2001-2028	4.300	6.050%	18,265,000	17,710,000	-	3,275,000	14,435,000	485,000
2000 B	2025-2030	5.750	6.250%	16,735,000	15,165,000	-	5,325,000	9,840,000	-
2000 E	2002-2030	4.850	6.150%	29,160,000	28,455,000	-	5,285,000	23,170,000	655,000
2000 F	2028	6.250	6.250%	20,840,000	20,200,000	-	9,130,000	11,070,000	-
2000 H	2009-2030	4.650	5.750%	30,070,000	29,490,000	-	2,190,000	27,300,000	-
2000 I	2002-2009	4.400	4.900%	4,930,000	4,850,000	-	4,050,000	800,000	415,000
2000 K	2003-2022	4.500	5.700%	14,825,000	14,790,000	-	1,210,000	13,580,000	450,000
2000 L	2031-2033	5.900	5.900%	20,175,000	20,105,000	-	1,200,000	18,905,000	-
2001 A	2003-2030	3.600	5.350%	23,465,000	23,210,000	-	395,000	22,815,000	485,000
2001 B	2022-2032	5.350	5.450%	6,535,000	6,515,000	-	255,000	6,260,000	-
2001 C	2032	***	***	7,500,000	7,430,000	-	165,000	7,265,000	80,000
2001 F	2003-2030	3.350	5.550%	24,025,000	24,025,000	-	50,000	23,975,000	555,000
2001 G	2026-2032	4.850	5.700%	10,975,000	10,975,000	-	870,000	10,105,000	-
2001 J	2003-2030	3.000	5.150%	26,435,000	26,435,000	-	585,000	25,850,000	505,000
2001 K	2032	5.400	5.400%	3,565,000	3,565,000	-	355,000	3,210,000	-
2001 L	2032	***	***	9,100,000	9,100,000	-	295,000	8,805,000	90,000
2001 M	2002	2.550	2.550%	10,355,000	10,355,000	-	10,355,000	-	-
2001 N	2002	2.600	2.600%	9,435,000	9,435,000	-	9,435,000	-	-
2001 O	2002	2.600	2.600%	1,435,000	1,435,000	-	1,435,000	-	-
2001 P	2002	2.200	2.200%	9,435,000	9,435,000	-	9,435,000	-	-
2001 Q	2003-2024	2.350	5.125%	19,015,000	19,015,000	-	30,000	18,985,000	570,000
2001 R	2027-2033	4.200	5.375%	15,985,000	15,985,000	-	290,000	15,695,000	-
2001 S	2002	2.030	2.030%	15,315,000	15,315,000	-	15,315,000	-	-
2001 T	2002	2.120	2.120%	6,505,000	6,505,000	-	6,505,000	-	-
2001 U	2002	2.120	2.120%	47,000,000	44,650,000	-	44,650,000	-	-
2002 A	2004-2024	2.350	5.200%	18,620,000	18,620,000	-	-	18,620,000	-

Notes to the Financial Statements (Continued)  
June 30, 2003

Original Issue					Bonds Outstanding				Due Within One Year
Series	Due Dates	Interest Range		Amount	Beginning Balance	Increases	Decreases	Ending Balance	
		From	To						
2002 B	2004-2033	2.700	5.450%	16,380,000	\$ 16,380,000	\$ -	\$ 105,000	\$ 16,275,000	\$ -
2002 C	2003	1.670	1.670%	29,525,000	29,525,000	-	29,525,000	-	-
2002 D	2003	1.720	1.720%	2,740,000	2,740,000	-	2,740,000	-	-
2002 E	2003	1.720	1.720%	8,880,000	8,880,000	-	8,880,000	-	-
2002 F	2005-2022	3.150	5.250%	15,190,000	15,190,000	-	-	15,190,000	-
2002 G	2003-2033	2.400	5.600%	19,810,000	19,810,000	-	-	19,810,000	150,000
2002 H	2006-2023	2.450	5.000%	16,315,000	-	16,315,000	-	16,315,000	-
2002 I	2004-2033	2.000	5.250%	18,685,000	-	18,685,000	-	18,685,000	-
2002 J	2003	1.500	1.500%	36,580,000	-	36,580,000	36,580,000	-	-
2002 K	2003	1.550	1.550%	9,515,000	-	9,515,000	9,515,000	-	-
2002 L	2003	1.550	1.550%	37,530,000	-	37,530,000	37,530,000	-	-
2002 M	2006-2023	2.400	5.050%	16,285,000	-	16,285,000	-	16,285,000	-
2002 N	2004-2033	2.200	5.250%	18,715,000	-	18,715,000	-	18,715,000	-
2002 O	2003	1.300	1.300%	37,250,000	-	37,250,000	-	37,250,000	37,250,000
2002 P	2003	1.350	1.350%	3,885,000	-	3,885,000	-	3,885,000	3,885,000
2002 Q	2003	1.350	1.350%	89,465,000	-	89,465,000	-	89,465,000	89,465,000
2003 A	2007-2030	2.150	4.900%	22,810,000	-	22,810,000	-	22,810,000	-
2003 B	2004-2034	1.400	5.000%	12,190,000	-	12,190,000	-	12,190,000	-
2003 C	2004	1.130	1.130%	10,400,000	-	10,400,000	-	10,400,000	10,400,000
2003 D	2004	1.180	1.180%	12,320,000	-	12,320,000	-	12,320,000	12,320,000
2003 E	2004-2030	1.100	4.600%	24,665,000	-	24,665,000	-	24,665,000	-
2003 F	2032-2034	3.200	4.750%	10,335,000	-	10,335,000	-	10,335,000	-
2003 G	2004	1.030	1.030%	36,640,000	-	36,640,000	-	36,640,000	-
2003 H	2004	1.100	1.100%	16,065,000	-	16,065,000	-	16,065,000	-
2003 I	2004	1.100	1.100%	29,295,000	-	29,295,000	-	29,295,000	-
<i>Total Mortgage Revenue Bonds</i>					\$ 1,060,899,827	\$ 458,945,000	\$ 368,275,000	\$ 1,151,569,827	\$ 168,130,000

\*\*\* Interest on the 2001 C and 2001 L series adjusts monthly based on the one month LIBOR rate plus 0.40%, not to exceed 11.00% for 2001 C and 11.50% for 2001 L. The interest rate at the end of the fiscal year was 1.72%.

**Assisted or Insured Multi-Unit Program**

Original Issue					Bonds Outstanding				Due Within One Year
Series	Due Dates	Interest Range		Amount	Beginning Balance	Increases	Decreases	Ending Balance	
		From	To						
1991 A	1992-2013	4.700	6.800%	\$ 15,665,000	\$ 11,055,000	\$ -	\$ 630,000	\$ 10,425,000	\$ 665,000
1991 B	1992-2013	4.700	6.800%	18,270,000	12,895,000	-	735,000	12,160,000	780,000
1991 C	1993-2022	5.000	6.850%	5,985,000	585,000	-	15,000	570,000	15,000
1993 A	1994-2012	2.800	5.750%	48,455,000	32,260,000	-	2,465,000	29,795,000	2,590,000
<i>Total Assisted or Insured Multi-Unit Program</i>					\$ 56,795,000	\$ -	\$ 3,845,000	\$ 52,950,000	\$ 4,050,000

**Multifamily Housing Revenue Bonds**

Original Issue					Bonds Outstanding				Due Within One Year
Series	Due Dates	Interest Range		Amount	Beginning Balance	Increases	Decreases	Ending Balance	
		From	To						
1996 A	1999-2028	4.650	6.200%	\$ 4,505,000	\$ 4,325,000	\$ -	\$ 65,000	\$ 4,260,000	\$ 75,000
1997 A	1999-2029	4.100	5.700%	16,360,000	15,755,000	-	260,000	15,495,000	270,000
1997 B	2000-2029	4.000	5.550%	10,100,000	9,785,000	-	165,000	9,620,000	175,000
1999 A	2001-2030	3.450	5.150%	12,440,000	12,235,000	-	210,000	12,025,000	215,000
1999 B	2002-2031	4.300	6.000%	34,920,000	34,920,000	-	480,000	34,440,000	500,000
2000 A	2003-2042	4.600	6.050%	18,325,000	18,325,000	-	-	18,325,000	130,000
2001 A	2024-2032	4.600	5.100%	1,770,000	1,770,000	-	-	1,770,000	30,000
2001 B	2004-2043	2.900	5.450%	31,935,000	31,935,000	-	-	31,935,000	-
2002 A	2004-2033	1.800	5.000%	7,875,000	-	7,875,000	-	7,875,000	-
<i>Total Multifamily Housing Revenue Bonds</i>					\$ 129,050,000	\$ 7,875,000	\$ 1,180,000	\$ 135,745,000	\$ 1,395,000
<b>Total Revenue Bonds</b>					\$ 1,255,374,827	\$ 466,820,000	\$ 374,410,000	\$ 1,347,784,827	\$ 174,640,000
<b>Total General Obligation and Revenue Bonds</b>					\$ 1,530,869,827	\$ 546,225,000	\$ 441,195,000	\$ 1,635,899,827	\$ 184,790,000

Notes to the Financial Statements (Continued)  
June 30, 2003

**Bonds Payable Per Balance Sheet:**

Bonds payable are presented on the balance sheet at their carrying value which is defined as initial bond principal less unamortized bond discount plus the semiannual accretion in principal for capital appreciation bonds less the deferred amount on debt refunding as summarized below:

	Principal (per preceding Schedule)	Less: Discount (Net)	Plus: Accretion	Less: Deferred Amount on Debt Refunding	Bonds Payable
<b>General Obligation Bonds:</b>					
Elderly and Disabled Housing Program	\$ 288,115,000	\$ (653,067)	\$ -	\$ (2,834,155)	\$ 284,627,778
<b>Revenue Bonds (Housing Finance Fund):</b>					
<b>Single Family Mortgage Program:</b>					
Housing Finance Revenue Bonds	7,520,000	-	-	-	7,520,000
Mortgage Revenue Bonds	1,151,569,827	(4,254)	3,589,741	-	1,155,155,314
Assisted or Insured Multi-Unit Program	52,950,000	(43,976)	-	-	52,906,024
Multifamily Housing Revenue Bonds	135,745,000	-	-	-	135,745,000
<b>Total Revenue Bonds</b>	<b>1,347,784,827</b>	<b>(48,230)</b>	<b>3,589,741</b>	<b>-</b>	<b>1,351,326,338</b>
<b>Total General Obligation and Revenue Bonds</b>	<b>\$ 1,635,899,827</b>	<b>\$ (701,297)</b>	<b>\$ 3,589,741</b>	<b>\$ (2,834,155)</b>	<b>\$ 1,635,954,116</b>

**Debt Service Requirements to Maturity:**

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2003, for each fiscal year during the next five year period ending June 30, 2008, and in five year increments thereafter.

Year Ending June 30	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 10,150,000	\$ 13,995,170	\$ 24,145,170	\$ 174,640,000	\$ 59,646,122	\$ 234,286,122
2005	10,540,000	13,779,209	24,319,209	107,665,601	58,376,893	166,042,494
2006	10,950,000	13,355,642	24,305,642	26,576,117	56,777,518	83,353,635
2007	9,080,000	12,950,484	22,030,484	27,856,809	55,600,038	83,456,847
2008	8,725,000	12,581,830	21,306,830	31,795,289	54,531,431	86,326,720
2009-2013	47,990,000	56,677,896	104,667,896	149,626,011	244,593,787	394,219,798
2014-2018	58,250,000	43,801,920	102,051,920	157,580,000	203,988,187	361,568,187
2019-2023	70,030,000	26,963,001	96,993,001	195,360,000	156,430,594	351,790,594
2024-2028	47,310,000	9,825,083	57,135,083	249,915,000	95,787,244	345,702,244
2029-2033	12,385,000	2,043,585	14,428,585	184,475,000	32,543,272	217,018,272
2034-2038	1,125,000	558,851	1,683,851	28,425,000	6,176,232	34,601,232
2039-2043	1,420,000	245,178	1,665,178	12,920,000	2,280,477	15,200,477
2044-2048	160,000	4,040	164,040	950,000	25,887	975,887
<b>Total</b>	<b>\$ 288,115,000</b>	<b>\$ 206,781,889</b>	<b>\$ 494,896,889</b>	<b>\$ 1,347,784,827</b>	<b>\$ 1,026,757,682</b>	<b>\$ 2,374,542,509</b>

The interest stated above includes coupon interest and accreted interest OHCS D expects to pay over the life of the bonds outstanding. Coupon interest is paid semiannually on January 1 and July 1 for revenue bond programs, and February 1 and August 1 for general obligation bonds. Accreted interest on capital appreciation bonds accrues as shown in the respective Official Statements and is paid when the bonds mature or are redeemed.

As of June 30, 2003, various statutory or constitutional provisions limited the amount of bonds outstanding to \$2,000,000,000 in revenue bonds and approximately \$1,436,406,940 in general obligation bonds.

**Debt Refunding:**

On October 23, 2002, OHCS D issued \$54,180,000 of Elderly and Disabled Housing Bonds that refunded previously issued Elderly and Disabled Housing Bonds from various series. The current refunding of these bonds decreases the total debt service over the next 22 years by approximately \$17,920,065 and results in an economic gain of approximately \$11,557,060.

**NOTE 8. Conduit Debt Obligations**

As of June 30, 2003, OHCS D has issued five series of Housing Development Revenue Bonds in the aggregate amount of \$42,838,834, all of which were outstanding at June 30, 2003. All bonds issued under the Housing Development Revenue Bond program are limited obligations of OHCS D payable only out of security specifically pledged to each bond issue. No recourse may be taken against any properties, funds, or assets of OHCS D for the payment of any amounts owing with respect to these bonds. Bond owners will have no right to compel the payment of any amount owing with respect to these bonds out of any tax revenues, funds, or other assets of OHCS D or the State of Oregon, other than the security pledged to each bond issue.

**NOTE 9. Lease Obligations**

OHCS D leases office space under operating leases. Total cost for the leases for the fiscal year ended June 30, 2003 was \$454,976. The future minimum lease payments for the next five years are:

Fiscal Year Ending:	
June 30, 2004	\$ 173,951
June 30, 2005	57,957
June 30, 2006	5,437
June 30, 2007	-
June 30, 2008	-
Total	<u>\$ 237,345</u>

**NOTE 10. Segment Information**

OHCS D issues revenue bonds to finance mortgage loans. Summary financial information for OHCS D's revenue bonds is presented below.

	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program	Multifamily Housing Revenue Bonds
<b>Condensed Statement of Net Assets</b>				
Assets:				
Current Assets	\$ 2,002,824	\$ 200,163,702	\$ 6,220,667	\$ 5,768,893
Other Noncurrent Assets	28,962,155	1,043,854,775	64,617,829	140,601,037
Total Assets	<u>30,964,979</u>	<u>1,244,018,477</u>	<u>70,838,496</u>	<u>146,369,930</u>
Liabilities:				
Interfund Payables	-	1,150	-	-
Other Current Liabilities	1,472,103	194,102,301	5,719,802	5,310,293
Noncurrent Liabilities	6,455,000	988,929,430	48,913,186	134,378,268
Total Liabilities	<u>7,927,103</u>	<u>1,183,032,881</u>	<u>54,632,988</u>	<u>139,688,561</u>
Net Assets				
Restricted Net Assets	23,037,876	60,985,596	16,205,508	6,681,369
Total Net Assets	<u>\$ 23,037,876</u>	<u>\$ 60,985,596</u>	<u>\$ 16,205,508</u>	<u>\$ 6,681,369</u>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>				
Operating Revenues	\$ 1,460,189	\$ 57,846,557	\$ 7,375,799	\$ 8,686,116
Operating Expenses	(506,274)	(56,428,522)	(3,586,357)	(7,678,788)
Operating Income	953,915	1,418,035	3,789,442	1,007,328
Transfers In	-	2,350,000	-	475,000
Transfers Out	(2,650,000)	(2,250,890)	(2,301,893)	-
Change in Net Assets	(1,696,085)	1,517,145	1,487,549	1,482,328
Beginning Net Assets	24,733,961	59,468,451	14,717,959	5,199,041
Ending Net Assets	<u>\$ 23,037,876</u>	<u>\$ 60,985,596</u>	<u>\$ 16,205,508</u>	<u>\$ 6,681,369</u>

Notes to the Financial Statements (Continued)  
June 30, 2003

	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program	Multifamily Housing Revenue Bonds
<b>Condensed Statement of Cash Flows</b>				
Net Cash Provided (Used) by:				
Operating Activities	\$ 3,856,136	\$ 111,847,022	\$ 8,441,755	\$ (14,866,146)
Noncapital Financing Activities	(7,232,832)	35,691,873	(9,496,396)	(417,944)
Investing Activities	3,827,683	(146,229,277)	581,660	13,594,844
Net Increase (Decrease)	450,987	1,309,618	(472,981)	(1,689,246)
Beginning Cash and Cash Equivalents	330,174	11,716,443	836,274	2,149,186
Ending Cash and Cash Equivalents	\$ 781,161	\$ 13,026,061	\$ 363,293	\$ 459,940

**NOTE 11. Restricted Assets**

Restricted asset account balances are as follows:

Purpose:	Elderly and Disabled Housing Fund	Housing Finance Fund
	Loan Acquisition	\$ 19,113,060
Current Debt Service	24,145,170	234,286,122
Future Debt Service	32,141,782	223,736,944
Debt Reserves	29,924,482	72,341,799
Insurance Reserves	-	14,801,032
Combined Program Account	-	11,733,202
Matured Bonds and Coupons	384,454	96,086
Total	\$ 105,708,948	\$ 694,898,700
<b>Balance Sheet Amounts:</b>		
Restricted Cash and Cash Equivalents – Current	\$ 16,339,660	\$ 197,139
Restricted Cash and Cash Equivalents – Noncurrent	35,037,831	15,025,345
Restricted Investments – Current	-	203,954,823
Restricted Investments – Noncurrent	54,331,457	475,721,393
Total	\$ 105,708,948	\$ 694,898,700

**NOTE 12. Defined Benefit Retirement Plan**

OHCS D’s employees participate in the Oregon Public Employee’s Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. All OHCS D employees are eligible to participate in the system after completing six months of service. PERS is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum refunds. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. Current law permits employers to pay employee contributions to the Retirement Fund. OHCS D is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for fiscal year 2003 was 9.49 percent of each covered employee’s salary. The amounts contributed by OHCS D for the years ending June 30, 2003, 2002, and 2001 were \$653,609, \$609,298 and \$584,870, respectively, equal to the required contributions for each year.

**NOTE 13. Risk Financing**

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability

Notes to the Financial Statements (Continued)  
June 30, 2003

claims brought against the State, its officers, employees, or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered, and other key positions.

As a state agency, OHCS D participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less carry-forward or equity in the Insurance Fund.

For OHCS D, the amount of claim settlements did not exceed insurance coverage for each of the last three years.

**NOTE 14. Contingent Liabilities**

During the ordinary course of business, OHCS D occasionally becomes involved in litigation. OHCS D is represented in these actions by the Attorney General of the State of Oregon. Based upon information furnished by legal counsel, there are no issues that need to be disclosed.

**NOTE 15. Subsequent Events**

On October 30, 2003, OHCS D issued the following Elderly and Disabled Housing Bonds:

	<u>Issue Amount</u>
2003 Series C	\$ 2,930,000

On November 20, 2003, OHCS D issued the following Multifamily Housing Revenue Bonds:

	<u>Issue Amount</u>
2003 Series A	\$ 5,675,000

On July 1, 2002, OHCS D called the following Mortgage Revenue Bonds (Single-Family Mortgage Program) prior to maturity:

	<u>Amount Called</u>		<u>Amount Called</u>
1992 Series B	\$ 1,960,000	1999 Series B	\$ 480,000
1992 Series C	370,000	1999 Series E	660,000
1992 Series D	185,000	1999 Series F	670,000
1993 Series B	340,000	1999 Series I	1,450,000
1994 Series A	565,000	1999 Series J	1,045,000
1994 Series C	130,000	1999 Series L	1,670,000
1994 Series D	205,000	1999 Series M	530,000
1995 Series A	775,000	2000 Series A	370,000
1995 Series B	340,000	2000 Series B	1,025,000
1995 Series C	165,000	2000 Series E	720,000
1995 Series E	695,000	2000 Series F	1,805,000
1996 Series A	310,000	2000 Series H	1,825,000
1996 Series B	280,000	2000 Series I	385,000
1996 Series D	1,170,000	2000 Series K	490,000
1996 Series H	700,000	2000 Series L	350,000
1997 Series A	1,205,000	2001 Series A	235,000
1997 Series E	620,000	2001 Series B	575,000
1997 Series F	140,000	2001 Series C	210,000
1997 Series H	1,170,000	2001 Series F	65,000
1998 Series A	110,000	2001 Series G	235,000
1998 Series B	215,000	2001 Series K	90,000
1998 Series D	525,000	2002 Series B	135,000
1998 Series G	400,000	2002 Series Q	9,840,000
1999 Series A	75,000		

Notes to the Financial Statements (Continued)  
June 30, 2003

On August 1, 2003, OHCS D called the following Elderly and Disabled Housing Bonds prior to maturity:

	<u>Amount Called</u>
1992 Series B	\$ 7,625,000
1993 Series A	9,025,000

On October 1, 2003, OHCS D called the following Elderly and Disabled Housing Bonds prior to maturity:

	<u>Amount Called</u>
1995 Series B	\$ 2,205,000
1997 Series A	1,090,000
1998 Series B	5,765,000
1999 Series C	315,000
1999 Series F	55,000
2001 Series A	3,525,000
2001 Series B	120,000

*Supplementary  
Information*

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Combining Schedule of Housing Finance Fund Balance Sheet Activities

June 30, 2003

	Single-Family Mortgage Program			
	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program	Multifamily Housing Revenue Bonds
<b>Assets</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Cash and Cash Equivalents - Restricted	95,706	94,413	2,296	4,724
Investments - Restricted	1,282,202	191,849,721	5,670,321	5,152,579
Securities Lending Cash Collateral	89,621	1,680,039	38,869	56,460
Accounts Receivable	-	301	-	-
Accrued Interest Receivable	239,670	4,349,264	509,181	555,130
Interfund Receivable	-	-	-	-
Prepaid Expenses	-	-	-	-
Acquired Property	295,625	2,189,964	-	-
<b>Total Current Assets</b>	<b>2,002,824</b>	<b>200,163,702</b>	<b>6,220,667</b>	<b>5,768,893</b>
<i>Noncurrent Assets</i>				
Cash & Cash Equivalents - Restricted	685,455	12,931,648	360,997	455,216
Investments - Restricted	16,661,331	401,781,719	17,856,872	27,006,776
Deferred Charges	3,999	9,019,266	381,748	1,885,028
Loans Receivable (Net)	11,611,370	620,122,142	46,018,212	111,254,017
Capital Assets (Net)	-	-	-	-
<b>Total Noncurrent Assets</b>	<b>28,962,155</b>	<b>1,043,854,775</b>	<b>64,617,829</b>	<b>140,601,037</b>
<b>Total Assets</b>	<b>\$ 30,964,979</b>	<b>\$ 1,244,018,477</b>	<b>\$ 70,838,496</b>	<b>\$ 146,369,930</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
<i>Current Liabilities</i>				
Accounts Payable	\$ 4,522	\$ 450,833	\$ 2,042	\$ 96,530
Accrued Interest Payable	218,080	23,813,561	1,621,933	3,762,303
Obligations Under Securities Lending	89,621	1,680,039	38,869	56,460
Interfund Payable	-	1,150	-	-
Matured Bonds and Interest Payable	94,828	574	684	-
Bonds Payable	1,065,000	168,130,000	4,050,000	1,395,000
Deferred Income	52	27,294	6,274	-
Vacation Payable	-	-	-	-
<b>Total Current Liabilities</b>	<b>1,472,103</b>	<b>194,103,451</b>	<b>5,719,802</b>	<b>5,310,293</b>
<i>Noncurrent Liabilities</i>				
Bonds Payable	6,455,000	987,025,314	48,856,024	134,350,000
Arbitrage Rebate Liability	-	1,904,116	57,162	28,268
Loans Payable	-	-	-	-
<b>Total Noncurrent Liabilities</b>	<b>6,455,000</b>	<b>988,929,430</b>	<b>48,913,186</b>	<b>134,378,268</b>
<b>Total Liabilities</b>	<b>7,927,103</b>	<b>1,183,032,881</b>	<b>54,632,988</b>	<b>139,688,561</b>
<b>Net Assets:</b>				
Invested in Capital Assets	-	-	-	-
Restricted	23,037,876	60,985,596	16,205,508	6,681,369
Unrestricted	-	-	-	-
<b>Total Net Assets</b>	<b>23,037,876</b>	<b>60,985,596</b>	<b>16,205,508</b>	<b>6,681,369</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 30,964,979</b>	<b>\$ 1,244,018,477</b>	<b>\$ 70,838,496</b>	<b>\$ 146,369,930</b>

Combined Program Account	Housing Finance Account	Total
\$ -	\$ 4,123,840	\$ 4,123,840
-	-	197,139
-	-	203,954,823
-	626,576	2,491,565
-	213,616	213,917
-	125,512	5,778,757
-	2,213	2,213 **
-	169	169
-	-	2,485,589
-	5,091,926	219,248,012
702	591,327	15,025,345
11,732,500	682,195	475,721,393
-	-	11,290,041
-	5,320,544	794,326,285
-	130,295	130,295
11,733,202	6,724,361	1,296,493,359
\$ 11,733,202	\$ 11,816,287	\$ 1,515,741,371
\$ -	\$ 400,416	\$ 954,343
-	-	29,415,877
-	626,576	2,491,565
-	-	1,150 **
-	-	96,086
-	-	174,640,000
-	667	34,287
-	275,874	275,874
-	1,303,533	207,909,182
-	-	1,176,686,338
-	-	1,989,546
-	3,891,071	3,891,071
-	3,891,071	1,182,566,955
-	5,194,604	1,390,476,137
-	130,295	130,295
11,733,202	1,994,293	120,637,844
-	4,497,095	4,497,095
11,733,202	6,621,683	125,265,234
\$ 11,733,202	\$ 11,816,287	\$ 1,515,741,371

\*\* Interfund Receivables and Payables within the Housing Finance Fund totaling \$1,150 are not included in the Balance Sheet.

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

Combining Schedule of Housing Finance Fund Revenues, Expenses,  
and Changes in Fund Net Asset Activities  
For the Year Ended June 30, 2003

	Single-Family Mortgage Program			
	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program	Multifamily Housing Revenue Bonds
<b><u>Operating Revenues:</u></b>				
Interest on Loans	\$ 889,307	\$ 43,038,210	\$ 4,541,640	\$ 6,358,410
Investment Income	557,387	14,703,025	2,313,635	2,327,706
Transfer/Commitment Fees	-	-	-	-
Administrative Charges and Fees	-	-	520,524	-
Low Income Housing Tax Credit Fees	-	-	-	-
Gain on Sale of Foreclosed Property	13,495	105,322	-	-
Miscellaneous Revenue	-	-	-	-
<b>Total Operating Revenues</b>	<b>1,460,189</b>	<b>57,846,557</b>	<b>7,375,799</b>	<b>8,686,116</b>
<b><u>Operating Expenses:</u></b>				
Personal Services	-	-	-	-
Services and Supplies	-	38,768	-	245,332
Mortgage Service Fees	49,426	2,500,619	33,430	13,080
Foreclosure Costs	18,165	196,167	-	-
Real Estate Owned Expenses	-	646	-	-
Interest Expense - Bonds	436,160	51,339,969	3,251,483	7,289,124
Interest Expense - Loans	-	-	-	-
Interest Expense - Securities Lending	1,322	58,491	2,709	2,684
Other Related Program Expenses	-	1,301,305	231,892	-
Amortization of Deferred Bond Issuance Costs	1,201	992,557	74,837	95,277
Depreciation/Amortization	-	-	-	-
Bad Debt Expense	-	-	(7,994)	33,291
<b>Total Operating Expenses</b>	<b>506,274</b>	<b>56,428,522</b>	<b>3,586,357</b>	<b>7,678,788</b>
<b>Operating Income (Loss)</b>	<b>953,915</b>	<b>1,418,035</b>	<b>3,789,442</b>	<b>1,007,328</b>
<b>Income (Loss) Before Transfers</b>	<b>953,915</b>	<b>1,418,035</b>	<b>3,789,442</b>	<b>1,007,328</b>
Transfers from Other Funds	-	2,350,000	-	475,000
Transfers to Other Funds	(2,650,000)	(2,250,890)	(2,301,893)	-
<b>Change in Net Assets</b>	<b>(1,696,085)</b>	<b>1,517,145</b>	<b>1,487,549</b>	<b>1,482,328</b>
<b>Net Assets - Beginning</b>	<b>24,733,961</b>	<b>59,468,451</b>	<b>14,717,959</b>	<b>5,199,041</b>
<b>Net Assets - Ending</b>	<b>\$ 23,037,876</b>	<b>\$ 60,985,596</b>	<b>\$ 16,205,508</b>	<b>\$ 6,681,369</b>

Combined Program Account	Housing Finance Account	Total
\$ -	\$ 203,433	\$ 55,031,000
173,462	206,693	20,281,908
-	934,655	934,655
-	569,672	1,090,196
-	1,117,418	1,117,418
-	-	118,817
-	37,101	37,101
173,462	3,068,972	78,611,095
-	4,958,454	4,958,454
-	2,543,212	2,827,312
-	216	2,596,771
-	-	214,332
-	-	646
-	-	62,316,736
-	129,231	129,231
-	11,311	76,517
-	891,740	2,424,937
-	-	1,163,872
-	87,272	87,272
-	2,612	27,909
-	8,624,048	76,823,989
173,462	(5,555,076)	1,787,106
173,462	(5,555,076)	1,787,106
-	7,409,977	10,234,977 **
-	(2,825,000)	(10,027,783) **
173,462	(970,099)	1,994,300
11,559,740	7,591,782	123,270,934
\$ 11,733,202	\$ 6,621,683	\$ 125,265,234

\*\* Transfers within the Housing Finance Fund totaling \$10,027,783 are not included in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Combining Schedule of Housing Finance Fund Cash Flow Activities

For the Year Ended June 30, 2003

	Single-Family Mortgage Program		
	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program
<b><u>Cash Flows from Operating Activities:</u></b>			
Received from Customers	\$ -	\$ -	\$ 520,524
Program Loan Principal Repayments	2,804,284	180,138,738	3,748,450
Program Loan Interest Received	911,426	43,546,753	4,437,724
Program Loans Made	-	(110,737,283)	-
Payments to Employees for Services	-	-	-
Payments to Suppliers for Goods and Services	(50,576)	(2,556,757)	(33,050)
Other Receipts (Payments)	191,002	1,455,571	(231,893)
<b>Net Cash Provided (Used) in Operating Activities</b>	<b>3,856,136</b>	<b>111,847,022</b>	<b>8,441,755</b>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>			
Proceeds from Bond Sales	-	458,945,000	-
Principal Payments on Bonds	(1,110,000)	(368,275,000)	(3,845,000)
Interest Payments on Bonds	(472,832)	(52,955,961)	(3,349,503)
Bond Issue Costs	-	(2,117,226)	-
Bond Call Costs	-	(4,050)	-
Loan Proceeds	-	-	-
Principal Payments on Loans	-	-	-
Interest Payments on Loans	-	-	-
Transfers from Other Funds	-	2,350,000	-
Transfers to Other Funds	(5,650,000)	(2,250,890)	(2,301,893)
<b>Net Cash Provided (Used) in Noncapital Financing Activities</b>	<b>(7,232,832)</b>	<b>35,691,873</b>	<b>(9,496,396)</b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Acquisition of Capital Assets	-	-	-
<b>Net Cash Provided (Used) in Capital and Related Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Cash Flows from Investing Activities:</u></b>			
Purchase of Investments	(35,268,408)	(1,269,405,019)	(25,223,675)
Proceeds from Sales and Maturities of Investments	38,329,292	1,108,689,368	24,973,798
Interest on Cash and Investments	766,799	14,486,374	831,537
Investment Income on Securities Lending	1,322	58,491	2,709
Interest Paid on Securities Lending	(1,322)	(58,491)	(2,709)
<b>Net Cash Provided (Used) in Investing Activities</b>	<b>3,827,683</b>	<b>(146,229,277)</b>	<b>581,660</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>450,987</b>	<b>1,309,618</b>	<b>(472,981)</b>
<b>Cash and Cash Equivalents Balance - Beginning</b>	<b>330,174</b>	<b>11,716,443</b>	<b>836,274</b>
<b>Cash and Cash Equivalents Balance - Ending</b>	<b>\$ 781,161</b>	<b>\$ 13,026,061</b>	<b>\$ 363,293</b>
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Cash and Cash Equivalents - Restricted (Current)	95,706	94,413	2,296
Cash and Cash Equivalents - Restricted (Noncurrent)	685,455	12,931,648	360,997
<b>Total Cash and Cash Equivalents</b>	<b>\$ 781,161</b>	<b>\$ 13,026,061</b>	<b>\$ 363,293</b>

Multifamily Housing Revenue Bonds	Combined Program Account	Housing Finance Account	Total
\$ -	\$ -	\$ 2,683,522	\$ 3,204,046
933,465	-	3,373,428	190,998,365
6,242,628	-	207,761	55,346,292
(21,750,000)	-	(3,816,071)	(136,303,354)
-	-	(4,850,627)	(4,850,627)
(292,239)	-	(2,696,327)	(5,628,949)
-	-	(3,814,534)	(2,399,854)
(14,866,146)	-	(8,912,848)	100,365,919
7,875,000	-	-	466,820,000
(1,180,000)	-	-	(374,410,000)
(7,409,684)	-	-	(64,187,980)
(178,260)	-	-	(2,295,486)
-	-	-	(4,050)
-	-	3,101,877	3,101,877
-	-	(3,210,806)	(3,210,806)
-	-	(129,263)	(129,263)
475,000	-	10,409,977	13,234,977 **
-	-	(2,825,000)	(13,027,783) **
(417,944)	-	7,346,785	25,891,486
-	-	(73,964)	(73,964)
-	-	(73,964)	(73,964)
(59,675,113)	(34,951,512)	(1,493,803)	(1,426,017,530)
71,872,557	34,814,125	1,578,474	1,280,257,614
1,397,400	137,618	156,407	17,776,135
2,684	-	11,311	76,517
(2,684)	-	(11,311)	(76,517)
13,594,844	231	241,078	(127,983,781)
(1,689,246)	231	(1,398,949)	(1,800,340)
2,149,186	471	6,114,116	21,146,664
\$ 459,940	\$ 702	\$ 4,715,167	\$ 19,346,324
\$ -	\$ -	\$ 4,123,840	\$ 4,123,840
4,724	-	-	197,139
455,216	702	591,327	15,025,345
\$ 459,940	\$ 702	\$ 4,715,167	\$ 19,346,324

(continued on next page)

\*\* Transfers within the Housing Finance Fund totaling \$13,027,783 are not included in the Statement of Cash Flows.

OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

Combining Schedule of Housing Finance Fund Cash Flow Activities *(continued from previous page)*

For the Year Ended June 30, 2003

	Single-Family Mortgage Program		
	Housing Finance Revenue Bonds	Mortgage Revenue Bonds	Assisted or Insured Multi-Unit Program
<b><u>Reconciliation of Operating Income to</u></b>			
<b><u>Net Cash Provided by Operating Activities:</u></b>			
Operating Income (Loss)	\$ 953,915	\$ 1,418,035	\$ 3,789,442
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation/Amortization	-	-	-
Amortization of Deferred Bond Issuance Costs	1,201	992,557	74,837
Bad Debt Expense	-	-	(7,994)
Investment Income Reported as Operating Revenue	(557,387)	(14,703,025)	(2,313,635)
Interest Expense Reported as Operating Expense	437,482	51,398,460	3,254,192
Bond Call Expenses	-	1,301,305	-
(Increase)/Decrease in Assets:			
Loan Interest Receivable	22,572	499,216	(103,520)
Accounts Receivable	-	(301)	-
Interfund Receivable	-	-	-
Prepaid Expenses	-	-	-
Loans Receivable	3,195,602	71,281,678	3,748,450
Acquired Property	(195,246)	(431,687)	-
Increase/(Decrease) in Liabilities:			
Accounts Payable	(1,549)	80,307	379
Interfund Payable	-	1,150	-
Deferred Income	(454)	9,327	(396)
Vacation Payable	-	-	-
<b>Net Cash Provided (Used) in Operating Activities</b>	<b>\$ 3,856,136</b>	<b>\$ 111,847,022</b>	<b>\$ 8,441,755</b>
<b><u>Noncash Investing, Capital, and Financing Activities:</u></b>			
Net Change in Fair Value of Investments	\$ (99,515)	\$ 3,278,995	\$ 1,354,052
Foreclosed Property	394,897	5,975,038	-
<b>Total Noncash Investing, Capital, and Financing Activities</b>	<b>\$ 295,382</b>	<b>\$ 9,254,033</b>	<b>\$ 1,354,052</b>

Multifamily Housing Revenue Bonds	Combined Program Account	Housing Finance Account	Total
\$ 1,007,328	\$ 173,462	\$ (5,555,076)	\$ 1,787,106
-	-	87,272	87,272
95,277	-	-	1,163,872
33,291	-	2,612	27,909
(2,327,706)	(173,462)	(206,693)	(20,281,908)
7,291,808	-	140,542	62,522,484
-	-	-	1,301,305
(115,783)	-	3,982	306,467
-	-	(32,778)	(33,079)
-	-	23,628	23,628 **
-	-	15,296	15,296
(20,816,535)	-	(442,644)	56,966,551
-	-	-	(626,933)
(33,826)	-	(3,007,803)	(2,962,492)
-	-	(357)	793 **
-	-	345	8,822
-	-	58,826	58,826
<u>\$ (14,866,146)</u>	<u>\$ -</u>	<u>\$ (8,912,848)</u>	<u>\$ 100,365,919</u>
\$ 929,191	\$ 172,688	\$ 44,697	\$ 5,680,108
-	-	-	6,369,935
<u>\$ 929,191</u>	<u>\$ 172,688</u>	<u>\$ 44,697</u>	<u>\$ 12,050,043</u>

\*\* Interfund Receivables and Payables within the Housing Finance Fund totaling an increase of \$1,150 are not included in the Statement of Cash Flows.



# *Statistical Section*

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

Revenues, Expenses, and Transfers

Enterprise Funds

Last Ten Fiscal Years

	2003	2002	2001	2000
<b>Revenues:</b>				
Interest on Loans	\$ 71,465,435	\$ 72,928,497	\$ 67,714,244	\$ 59,712,811
Investment Income	26,337,964	25,999,709	37,090,750	29,165,409
Transfer/Commitment Fees	1,051,794	1,924,442	2,158,957	3,137,948
Administrative Charges and Fees	1,287,564	866,827	892,201	839,522
Low Income Housing Tax Credit Fees	1,117,418	884,634	791,355	582,379
Mortgage Credit Certificate Fees	-	75	125	150
Rental Income	-	-	-	-
Gain on Sale of Foreclosed Property	118,817	45,516	29,757	61,394
Gain on Disposition of Capital Assets	-	-	38,965	-
Miscellaneous Revenue	42,221	181,343	1,448,282	213,110
<b>Total Revenues</b>	<b>\$ 101,421,213</b>	<b>\$ 102,831,043</b>	<b>\$ 110,164,636</b>	<b>\$ 93,712,723</b>
<b>Expenses:</b>				
Personal Services	\$ 5,798,187	\$ 5,488,760	\$ 5,089,114	\$ 4,764,953
Services and Supplies	2,852,514	2,842,198	2,921,737	2,688,021
Mortgage Service Fees	2,684,267	2,699,626	2,517,471	2,132,604
Foreclosure Costs	214,332	99,046	38,904	43,269
Real Estate Owned Expenses	646	-	1,060	750
Interest Expense - Bonds	77,158,001	79,687,587	76,622,684	68,769,372
Interest Expense - Loans	129,231	65,467	36,213	29,377
Interest Expense - Securities Lending	159,076	112,001	278,322	389,209
Other Related Program Expenses	2,748,849	5,527,426	2,522,261	1,991,381
Amortization of Deferred Bond Issuance Costs	1,375,300	1,523,776	1,615,378	1,575,026
Depreciation/Amortization	104,076	147,903	348,529	515,674
Bad Debt Expense	14,509	7,072	186,208	53,208
Loss on Disposition of Capital Assets	-	-	-	6,507
<b>Total Expenses</b>	<b>\$ 93,238,988</b>	<b>\$ 98,200,862</b>	<b>\$ 92,177,881</b>	<b>\$ 82,959,351</b>
<b>Transfers:</b>				
Transfers from Other Funds	\$ 207,194	\$ 207,194	\$ 207,194	\$ 207,194
Transfers to Other Funds	(207,194)	(207,194)	(207,194)	(207,194)
<b>Total Transfers</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Unaudited*

	1999	1998	1997	1996	1995	1994
\$	51,599,437	\$ 49,470,569	\$ 45,586,467	\$ 42,217,704	\$ 39,849,335	\$ 39,508,204
	21,504,499	29,290,017	25,353,617	20,865,667	14,597,087	14,586,306
	1,526,166	1,222,215	1,096,097	678,957	1,271,136	448,466
	587,101	875,389	722,154	677,743	656,697	545,663
	510,704	466,363	435,412	376,154	316,791	467,651
	570	6,569	14,406	73,316	257,897	153,657
	-	-	-	-	-	43,000
	24,315	-	22,894	49,115	35,651	89,245
	-	-	-	-	-	-
	196,237	288,188	156,331	158,744	243,490	101,164
\$	75,949,029	\$ 81,619,310	\$ 73,387,378	\$ 65,097,400	\$ 57,228,084	\$ 55,943,356
\$	4,370,317	\$ 3,340,984	\$ 3,114,905	\$ 3,016,443	\$ 2,736,183	\$ 2,398,642
	2,579,604	1,850,048	1,655,554	1,725,836	1,434,329	1,448,007
	1,693,703	1,560,202	1,434,703	1,541,821	1,414,408	1,352,979
	40,161	8,099	28,218	10,123	56,286	71,273
	1,716	-	-	-	-	-
	60,580,845	55,619,972	52,221,672	47,278,234	40,263,376	39,663,119
	3,968	-	-	-	-	-
	331,776	359,799	936,902	-	-	-
	1,761,623	1,541,757	1,831,920	639,153	2,181,735	4,212,319
	1,251,314	904,281	822,151	651,782	565,316	621,290
	460,439	256,705	95,349	80,743	39,874	278,342
	132,070	255,006	126,822	99,748	187,591	132,673
	3,377	-	-	10,959	-	-
\$	73,210,913	\$ 65,696,853	\$ 62,268,196	\$ 55,054,842	\$ 48,879,098	\$ 50,178,644
\$	207,194	\$ 196,690	\$ 144,170	\$ 144,170	\$ 144,170	\$ 134,099
	(207,194)	(196,690)	(144,170)	(144,170)	(144,170)	(134,099)
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

## Loans Outstanding - By County

### Enterprise Funds

June 30, 2003

County	Elderly and Disabled Housing Program		Housing Finance Revenue Bonds		Mortgage Revenue Bonds	
	Number of Projects	Principal Amount	Number of Projects	Principal Amount	Number of Projects	Principal Amount
Baker	1	\$ 265,207	-	\$ -	58	\$ 3,318,648
Benton	6	1,969,930	2	36,899	85	8,120,513
Clackamas	31	22,805,231	5	206,944	279	28,895,507
Clatsop	5	1,465,063	-	-	55	5,371,224
Columbia	7	1,532,284	4	279,244	44	4,168,007
Coos	6	3,242,021	8	330,129	213	13,623,417
Crook	1	1,507,935	6	340,657	54	3,778,946
Curry	2	97,860	2	174,956	4	289,150
Deschutes	7	4,569,541	7	390,377	149	11,280,954
Douglas	10	12,227,446	8	389,798	112	7,978,929
Gilliam	1	1,051,396	1	53,800	3	150,324
Grant	2	98,840	1	59,818	4	228,305
Harney	2	2,392,810	2	111,929	14	726,016
Hood River	2	1,676,051	-	-	6	489,295
Jackson	11	10,464,904	4	117,773	370	30,876,658
Jefferson	2	978,951	4	116,139	39	2,870,816
Josephine	6	6,265,294	7	502,907	252	22,016,752
Klamath	2	107,057	4	33,408	294	17,745,769
Lake	1	100,000	1	42,027	17	947,577
Lane	28	18,965,063	16	464,812	732	55,267,459
Lincoln	9	9,491,704	-	-	72	6,178,765
Linn	11	8,123,534	7	128,252	143	9,909,942
Malheur	2	64,428	4	184,899	71	4,002,900
Marion	62	28,089,815	25	690,295	841	65,317,590
Morrow	-	-	2	115,049	54	3,409,852
Multnomah	58	42,135,510	89	1,330,149	2,287	205,206,388
Polk	14	7,543,091	17	1,222,409	113	9,037,932
Sherman	-	-	-	-	1	66,422
Tillamook	3	3,631,590	-	-	13	941,300
Umatilla	9	4,016,399	22	1,094,669	398	23,701,368
Union	4	1,810,039	10	604,330	141	8,718,163
Wallowa	2	1,552,375	2	143,521	16	1,052,016
Wasco	1	49,593	-	-	6	332,305
Washington	22	13,994,191	7	421,386	449	46,272,023
Wheeler	1	504,396	-	-	-	-
Yamhill	11	10,379,212	21	2,024,794	178	17,830,910
<b>Total</b>	<b>342</b>	<b>\$ 223,168,761</b>	<b>288</b>	<b>\$ 11,611,370</b>	<b>7,567</b>	<b>\$ 620,122,142</b>

Allowance for Uncollectible Accounts is not included. See Note 3.

Unaudited

Assisted or Insured Multi-Unit Program		Multifamily Housing Revenue Bonds		Housing Finance Account		Total	
Number of Projects	Principal Amount	Number of Projects	Principal Amount	Number of Projects	Principal Amount	Number of Projects	Principal Amount
1	\$ 160,251	-	\$ -	-	\$ -	60	\$ 3,744,106
2	1,281,863	1	1,194,412	-	-	96	12,603,617
7	2,642,020	3	17,738,561	3	1,089,077	328	73,377,340
1	920,880	-	-	-	-	61	7,757,167
1	891,796	1	2,284,903	-	-	57	9,156,234
2	681,020	-	-	-	-	229	17,876,587
3	404,003	-	-	-	-	64	6,031,541
-	-	-	-	-	-	8	561,966
7	1,157,156	1	2,564,216	1	30,709	172	19,992,953
7	1,552,149	2	4,127,244	-	-	139	26,275,566
-	-	-	-	-	-	5	1,255,520
4	910,599	-	-	-	-	11	1,297,562
1	94,370	-	-	-	-	19	3,325,125
2	1,039,697	-	-	-	-	10	3,205,043
15	3,332,985	1	3,560,597	1	300,000	402	48,652,917
3	638,114	-	-	-	-	48	4,604,020
3	265,178	-	-	1	40,000	269	29,090,131
2	994,909	-	-	1	90,871	303	18,972,014
-	-	-	-	-	-	19	1,089,604
12	5,956,162	1	2,353,492	-	-	789	83,006,988
2	1,165,462	-	-	1	3,480	84	16,839,411
3	352,544	-	-	2	523,550	166	19,037,822
4	382,770	-	-	2	179,757	83	4,814,754
10	2,511,374	2	1,722,625	4	818,444	944	99,150,143
-	-	-	-	-	-	56	3,524,901
7	7,600,420	11	54,769,748	3	1,397,521	2,455	312,439,736
2	769,073	-	-	1	55,000	147	18,627,505
-	-	-	-	1	40,000	2	106,422
1	47,605	-	-	-	-	17	4,620,495
6	1,220,102	-	-	1	70,000	436	30,102,538
3	1,060,807	1	1,440,845	-	-	159	13,634,184
-	-	-	-	-	-	20	2,747,912
1	523,160	-	-	2	422,125	10	1,327,183
7	6,653,710	3	19,721,005	1	26,000	489	87,088,315
-	-	-	-	-	-	1	504,396
1	906,303	-	-	2	260,545	213	31,401,764
120	\$ 46,116,482	27	\$ 111,477,648	27	\$ 5,347,079	8,371	\$ 1,017,843,482

# OREGON HOUSING & COMMUNITY SERVICES DEPARTMENT

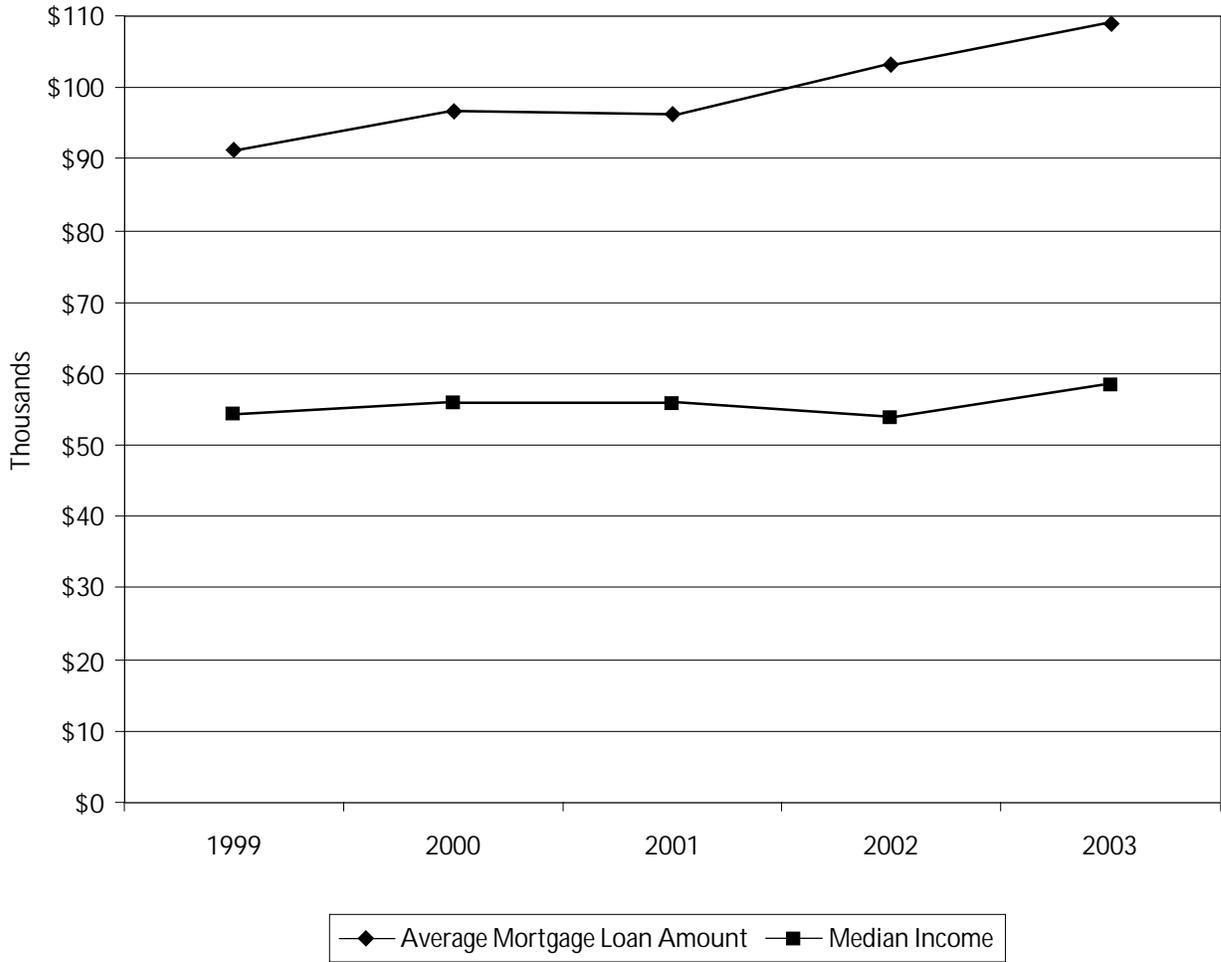
New Mortgage Loans  
Enterprise Funds  
Last Five Fiscal Years

*Unaudited*

	2003	2002	2001	2000	1999
<b><u>Elderly and Disabled Housing Program</u></b>					
Original Loan Amount	\$ 2,619,450	\$ 5,378,782	\$ 23,316,965	\$ 13,979,021	\$ 24,318,182
Average Loan Amount	436,575	1,792,927	777,232	199,700	579,004
Number of New Loans	6	3	30	70	42
Number of Units	110	109	322	264	439
<b><u>Housing Finance Revenue Bonds</u></b>					
Original Loan Amount	\$ -	\$ -	\$ 206,596	\$ -	\$ 5,303,636
Average Loan Amount	-	-	103,298	-	85,543
Number of New Loans	-	-	2	-	62
<b><u>Mortgage Revenue Bonds</u></b>					
Original Loan Amount	\$ 110,737,283	\$ 136,533,418	\$ 128,935,731	\$ 179,765,331	\$ 129,085,698
Average Loan Amount	109,208	103,278	96,581	96,648	91,420
Number of New Loans	1,014	1,322	1,335	1,860	1,412
<b><u>Assisted or Insured Multi-Unit Program</u></b>					
Original Loan Amount	\$ -	\$ -	\$ -	\$ -	\$ -
Average Loan Amount	-	-	-	-	-
Number of New Loans	-	-	-	-	-
<b><u>Multifamily Housing Revenue Bonds</u></b>					
Original Loan Amount	\$ 14,250,000	\$ 3,205,668	\$ 37,328,926	\$ 19,935,507	\$ 11,130,000
Average Loan Amount	14,250,000	1,068,556	3,732,893	3,322,585	3,710,000
Number of New Loans	1	3	10	6	3
Number of Units	296	97	1,005	444	241
<b><u>Housing Finance Account</u></b>					
Original Loan Amount	\$ 491,000	\$ -	\$ 100,000	\$ 100,000	\$ 333,013
Average Loan Amount	122,750	-	100,000	100,000	166,506
Number of New Loans	4	-	1	1	2

*Construction, Seed Money, and Pre-development Loans are not Included.*

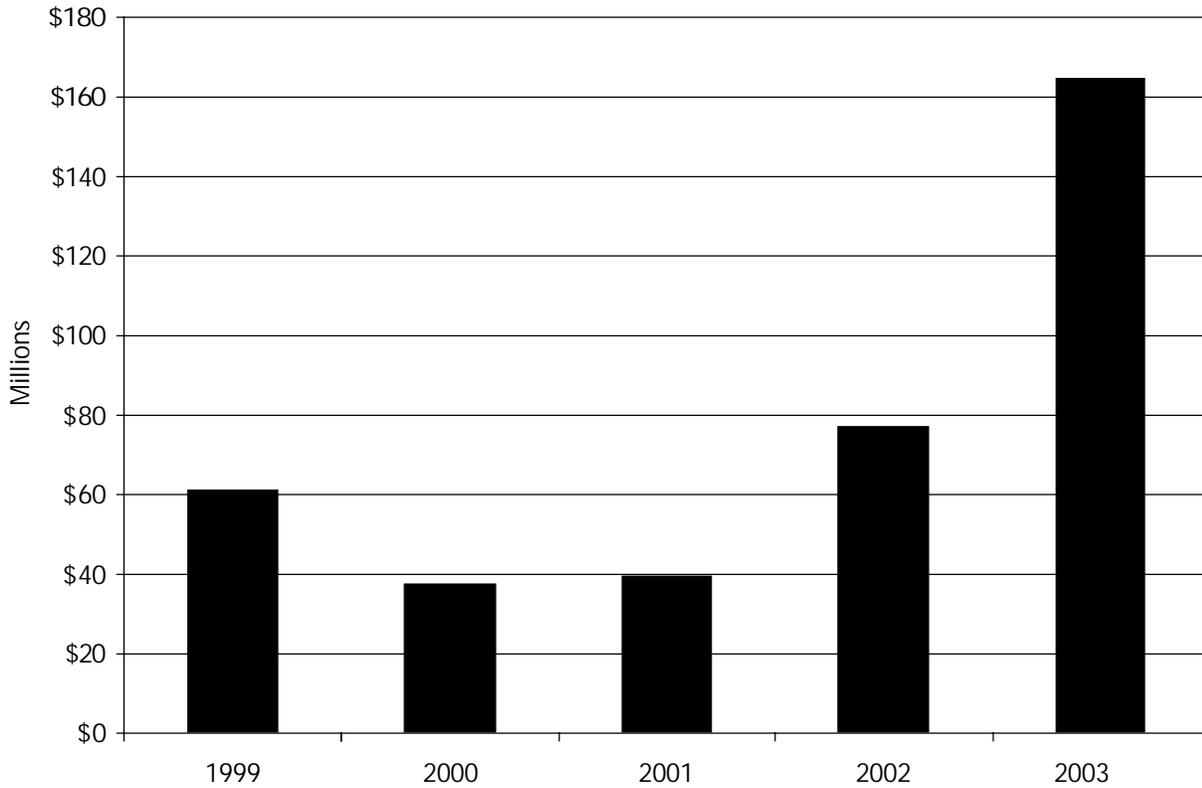
Single Family Mortgage Program  
 Average New Mortgage Loan Amount  
 Versus Median Income



	1999	2000	2001	2002	2003
Average Loan Amount	\$ 91,173	\$ 96,648	\$ 96,591	\$ 103,278	\$ 109,208
Median Income for a 4-Person Family in the State of Oregon **	\$ 54,226	\$ 55,892	\$ 55,947	\$ 53,909	\$ 58,315

\*\* Source: US Census Bureau

Single Family Mortgage Program  
 Mortgage Loan Payoffs



	1999	2000	2001	2002	2003
Prepaid Principal	\$ 60,786,689	\$ 37,743,579	\$ 39,766,779	\$ 76,838,383	\$ 164,283,221

# *Other Reports*



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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

Bob Repine, Director  
Oregon Housing and Community Services Department  
P.O. Box 14508  
Salem, Oregon 97309-0409

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the basic financial statements of the enterprise funds of the State of Oregon, Housing and Community Services Department, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and trust indentures, 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 audit, 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 audit, we considered the department'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 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 considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the department in a separate letter.

This report is intended solely for the information and use of the Oregon Housing and Community Services Department's management, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than those specified parties.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Bill Bradbury  
Secretary of State

November 20, 2003