FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL INFORMATION

New Jersey Housing and Mortgage Finance Agency
(A Component Unit of the State of New Jersey)

June 30, 2006 and 2005

New Jersey Housing and Mortgage Finance Agency

Financial Statements and
Supplemental Financial Information

June 30, 2006 and 2005

Contents

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Report of Independent Auditors

To the Agency Members
New Jersey Housing and Mortgage Finance Agency
Trenton, New Jersey

We have audited the accompanying financial statements of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, the General Fund and the aggregate discretely presented component units of the New Jersey Housing and Mortgage Finance Agency (the "Agency"), a component unit of the State of New Jersey, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2005 financial statements which were audited by other auditors, whose report dated September 12, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in 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. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, General Fund and the aggregate discretely presented component units of the Agency, as of June 30, 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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 of the Agency 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 financial statements that collectively comprise the Agency's basic financial statements. The supplemental information included in Schedules 1 through 4, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

October 18, 2006

New Jersey Housing and Mortgage Finance Agency

Management's Discussion and Analysis

Year ended June 30, 2006

Introduction to the Annual Report

This annual report consists of four parts; Management's Discussion and Analysis, Financial Statements, Notes to the Financial Statements and Supplementary Information. The Agency as referred to throughout Management's Discussion and Analysis is for financial reporting purposes, the primary government.

The Financial Statements include:

- The "Statements of Net Assets" provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities).

- The "Statements of Revenues Expenses and Changes in Net Assets" account for all of the current year's revenue and expenses, measure the success of the Agency's operations over the past year and can be used to determine how the Agency has funded its costs.

- The "Statements of Cash Flows" provides information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The Notes to the Financial Statements provide:

- Information that is essential to understanding the basic financial statements, such as the Agency's accounting methods and policies.

- Details of contractual obligations, future commitments and contingencies of the Agency.

- Any other events or developing situations that could materially affect the Agency's financial position.

Supplementary Information:

- Provides presentations of the Agency's financial information in accordance with the requirements of the various Bond Resolutions.

Management's Discussion and Analysis:

- This section of the Agency's financial statements, the Management's Discussion and Analyses (MD&A), presents an overview of the Agency's financial performance for each of the years in the three-year period ended June 30, 2006. It provides an assessment of how the Agency's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Agency's overall financial position. It may contain opinions, assumptions or conclusions by the Agency's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described above.

The Agency's Business

The New Jersey Housing and Mortgage Finance Agency (NJHMFA or Agency) was created to provide a strong unified advocate for housing production, financing and improvement. The Agency is established under, but is not a part of, the Department of Community Affairs, and is constituted as a body politic and corporate and an instrumentality of the State exercising public and essential governmental functions. Included in the Agency's powers is the ability, *inter alia*, to provide to housing sponsors, through eligible loans or otherwise, financing, refinancing or financial assistance for fully completed, as well as partially completed projects; to issue negotiable bonds and to secure the payment thereof; and to make and enter into and enforce all contracts and agreements necessary, convenient or desirable to the performance of its duties and the execution of its powers.

NJHMFA has two subsidiaries that are discretely presented as component units in the financial statements. The Statewide Acquisition and Redevelopment Corporation ("STAR") was formed to act as a housing service Agency under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency. A Better Camden Corporation ("ABC") was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in the City of Camden.

Overall Financial Highlights - 2006

- In fiscal year 2006, the Agency issued a total of $39.46 million in bonds to finance 8 new multi-family developments that contain 645 housing units.

- The Multi-Family Housing Revenue Bonds Series 1996 A&B were advanced refunded with a net present value savings of approximately $6.6 million.

- In fiscal year 2006, the Agency issued a total of $120.0 million in bonds to finance new single family mortgage loans.

- The Agency originated 1583 new single family mortgage loans in fiscal year 2006 as compared to 1197 in fiscal year 2005.

- The Agency received $50 million from the sale of New Jersey Economic Development Authority Motor Vehicle Surcharge Revenue Bonds to establish a Special Needs Housing Trust Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs.

- Investment income increased by 29.9% mainly as a result of higher short-term interest rates.

- Bond interest expense decreased by 2.7% mainly as a result of prior bond refundings and the early redemption of higher rate debt from mortgage prepayment proceeds.

- The Provision for loan loss expense declined by 16.4% from $23.3 million to $19.5 million.

- The Agency's total assets were flat from prior year whereas total liabilities decreased 3.3%, primarily due to a 5.3% decline in the amount of bonds outstanding.

- The Agency's mortgage loan receivables increased by 2.9%; however interest income on mortgage loans dropped by 4.3% due primarily to lower single family mortgage loan interest rates

Overall Financial Highlights - 2005

- In fiscal year 2005, the Agency issued a total of $111.8 million in bonds to finance 15 new multi-family developments that contained 1,824 housing units.

- The Multi-Family Housing Revenue Bonds Series 1995 A, B, and C were advanced refunded with a net present value savings of approximately $25.3 million.

- The Single Family Housing Revenue Bond Series 1994 I&J, K, and L&M were advanced refunded with a net present value savings of approximately $5.6 million.

- Investment income increased $10.8 million mainly as a result of higher short-term interest rates.

- Total General & Administrative expenses decreased by 19.2% from $18.8 million to $15.2 million as a result of a decrease in the MONI program grant disbursements.

- The Agency's total liabilities decreased by 3.7% due primarily to a 6.5% decline in the amount of bonds outstanding.

- The Agency's total assets decreased by 2.7% due in part to the decrease in mortgage receivable and the decrease investments which were used to redeem bonds.

- The Agency recorded a $2.6 million loss due to the cumulative effect of a change in accounting principle. The Agency changed the method it uses for calculating the amortization on Bond Cost of Issuance, Bond Premium and Bond Discount.

- Real Estate Owned (REO) increased by 406.7% primarily due to the acceptance in October, 2004, by the Agency of a deed-in-lieu of foreclosure for Carteret Senior Living in the approximate amount of $10.5 million.

Overview of the Financial Statements

The Agency is a self-supporting entity and follows enterprise fund reporting. An enterprise fund reports activity that is financed with debt that is secured solely by a pledge of the net revenue from that activity as well as activity that is not supported by taxes or similar revenues. NJHMFA's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting matches revenues and expenses to the time period in which they are earned or attributable, respectively, which may differ from the period in which the associated cash is received or expended.

Enterprise fund statements offer short-term and long-term financial information about the Agency's activities. While detailed sub-fund information is not presented in the Agency's financial statements, separate accounts are maintained for each bond issue and component unit, as well as the Agency's general operating fund, known as the General Fund. These sub-funds permit NJHMFA to control and manage money for particular purposes and to determine that the Agency is properly using specific resources.

Financial Analysis

The following sections will discuss the Agency's financial results for 2006 compared to 2005. Additionally, an examination of major economic factors that have contributed to the Agency's operations is provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Agency's financial statements, which are presented in accordance with accounting principles generally accepted in the United States. All amounts are in thousands.

NJHMFA's Assets and Liabilities

The Statements of Net Assets in the financial statements presents the Agency's assets, liabilities, and net assets as of June 30, 2006. The following table represents the changes in net assets between fiscal years 2006, 2005, 2004 and the change between June 2006 and 2005 and should be read in conjunction with the financial statements.

The Agency's total assets remained flat from 2005 to 2006, whereas total liabilities decreased by 3.2% due primarily to a 5.3% decline in bonds outstanding.

Condensed Statement of Net Assets (in Thousands)

				% Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
Current and other assets	$3,403,854	$3,417,916	$3,510,842	(0.4%)	(2.6%)
Capital assets	13,222	11,226	12,449	17.8	(9.8)
Total assets	3,417,076	3,429,142	3,523,291	(0.4)	(2.7)
Current liabilities	336,131	412,420	537,349	(18.5)	(23.2)
Long term liabilities	2,265,598	2,274,590	2,251,400	(0.4)	1.0
Total liabilities	2,601,729	2,687,010	2,788,749	(3.2)	(3.6)
Net assets:					
Invested in capital assets, net of related debt	13,222	11,226	12,449	17.8	(9.8)
Restricted	308,811	240,184	230,106	24.5	4.4
Unrestricted	493,314	490,722	491,987	0.5	0.3
Total net assets	$ 815,347	$ 742,132	$ 734,542	9.9	1.0

NJHMFA's Revenues and Expenses

The Statements of Revenues, Expenses and Changes in Fund Net Assets reports revenues recognized in and expenses incurred for the years ended June 30, 2006 and 2005. The table below summarizes the Agency's revenues and expenses for the fiscal years ended June 30, 2006, 2005 and 2004 and the changes between 2006 and 2005 and presents comparative data. It should be read in conjunction with the financial statements.

Net assets at the end of the year increased by 9.9% from 2005 to 2006. Some points of interest are as follows:

- Fees and charges income increased by 9.4% due to an increase in mortgage loans outstanding.
- Investment income increased by 29.9% primarily as a result of the increase in short-term interest rates.
- The Agency received $50 million from the sale of New Jersey Economic Development Authority Motor Vehicle Surcharge Revenue Bonds to establish a Special Needs Housing Trust Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs.
- The provision for loan loss expense declined by 16.4%.
- There was a 2.3% decline in operating expenses primarily due to a decrease in the provisions for loan losses.

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

	2006	2005	2004	% Change 2006/2005	% Change 2005/2004
Operating revenues:					
Interest income on mortgage loans	$ 124,487	$ 130,094	$ 138,160	(4.3%)	(5.8%)
Fees and charges	28,367	25,930	23,445	9.4	10.6
Other	2,254	242	1,964	831.4	(87.7)
	155,108	156,266	163,569		
Operating expenses	170,254	174,313	171,624	(2.3)	(1.6)
Operating loss	(15,146)	(18,047)	(8,055)	(16.1)	(124.0)
Non-operating revenues, net	88,361	28,213	17,465	213.2	61.5
Income before transfer	73,215	10,166	9,410	620.2	8.0
Transfers	–	(7)	–	–	–
Increase in net assets	73,215	10,159	9,410	620.7	8.0
Total net assets: beginning of year	742,132	734,542	725,132	1.0	1.3
Cumulated effect of accounting change	–	(2,569)	–	–	–
Total net assets: end of year	$815,347	$ 742,132	$ 734,542	9.9	1.0

Summary of Operating Expenses by Year (in Thousands)

	2006	2005	2004	% Change 2006/2005	% Change 2005/2004
Operating expenses:					
Interest	$109,212	$112,291	$112,059	(2.7%)	.2%
Insurance costs	2,356	2,833	3,082	(16.8)	(8.1)
Servicing fees and other	2,959	3,170	3,331	(6.7)	(4.8)
Salaries and related benefits	16,938	15,893	13,834	6.6	14.9
Professional services and financing costs	1,345	1,306	884	3.0	47.7
General and administrative expenses	17,661	14,451	17,899	22.2	(19.3)
Provision for loan losses	19,452	23,269	20,301	(16.4)	14.6
Other expenses	331	1,100	234	(69.9)	370.1
Total operating expenses	$170,254	$174,313	$171,624	(2.3)	1.5

Debt Administration

At June 30, 2006, the Agency had $2.05 billion of bond principal outstanding, net of deferral on refunding, discount and premium, a decrease of 5.3% over the prior year. The following table summarizes the Agency's bonds payable outstanding at June 30, 2006, 2005 and 2004 and the changes in bonds payable between June 30, 2006 and June 30, 2005. Dollars are in thousands.

	2006	2005	2004	% Change 2006/2005
Bonds Payable, Net	$2,045,712	$2,159,121	$2,308,061	(5.3%)

Additional information about the Agency's debt is presented in Note 9 of the financial statements.

Single Family Programs

The Agency provides a variety of residential mortgage financing programs that primarily serve low to moderate and middle-income first time homebuyers and homebuyers purchasing in certain designated urban areas. For the most part the programs are funded with Mortgage Revenue Bond proceeds.

- In September 2005, the Agency effectuated a $120 million new money and replacement refunding Housing Revenue Bond transaction.

Multi-Family Programs

During fiscal year 2006 the Agency issued 2005 Series F and G new money bonds totaling $39.46 million to finance 8 new developments that contain 645 housing units.

In fiscal year 2006 the Agency issued 2006 Series A and B refunding bonds totaling $36,265,000.

Contacting The Agency's Financial Management

This financial report is designed to provide a general overview of the Agency's business, financial position, and fiscal accountability for the funds it generates and receives. If you have questions about any information in this report, contact the Finance Division of the New Jersey Housing and Mortgage Finance Agency.

New Jersey Housing and Mortgage Finance Agency

Statements of Net Assets

at June 30, 2006
(with comparative summarized financial information as of June 30, 2005) (*in thousands*)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	2006 Total	2005 Total
Assets									
Current assets:									
Cash and cash equivalents	$ 174,540	$ 49,201	$ 423,792	$ 647,533	$316	$ 73		$ 647,922	$ 571,026
Investments		36,464	47,092	83,556				83,556	345,117
Accrued interest receivable on investments	2,344	1,155	2,129	5,628				5,628	6,202
Mortgage loans receivable, net	16,575	46,648	22,650	85,873				85,873	58,922
Supplemental mortgages and other loans, net			2,171	2,171				2,171	1,475
Fees and other charges receivable			2,559	2,559				2,559	1,955
Due from loan servicers and insurers	1,864		27	1,891				1,891	2,818
Interfund allocation			4,386	4,386			$(4,386)	–	–
Other assets	83	1,176	330	1,589				1,589	741
Total current assets	195,406	134,644	505,136	835,186	316	73	(4,386)	831,189	988,256
Non-current assets:									
Investments	195,359	129,914	200,509	525,782				525,782	441,729
Escrow deposits					131			131	168
Mortgage loans receivable, net	642,662	1,045,027	132,568	1,820,257			(1,770)	1,818,487	1,792,188
Debt service arrears receivable, net	2,728	1,285	82	4,095				4,095	3,533
Interest receivable on construction advances and mortgages			1,675	1,675				1,675	1,675
Supplemental mortgages and other loans, net	5,814		187,060	192,874				192,874	161,655
Deferred charges, bond issuance costs, net	4,314	7,278		11,592				11,592	11,546
Real estate owned	269		7,522	7,791				7,791	9,054
Real estate held for redevelopment						1,367		1,367	1,142
Capital assets, net			13,222	13,222	981			14,203	12,890
Other non-current assets			430	430				430	578
Due from other funds			4,172	4,172			(4,172)	–	–
Total non-current assets	851,146	1,183,504	547,240	2,581,890	1,112	1,367	(5,942)	2,578,427	2,436,158
Total assets	1,046,552	1,318,148	1,052,376	3,417,076	1,428	1,440	(10,328)	3,409,616	3,424,414

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Net Assets (continued)

at June 30, 2006
(with comparative summarized financial information as of June 30, 2005) (*in thousands*)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	2006 Total	2005 Total
Liabilities									
Current liabilities:									
Bonds and obligations, net	$ 29,300	$ 56,205		$ 85,505				$ 85,505	$ 163,980
Accrued interest payable on bonds and obligations	9,735	10,227		19,962				19,962	17,838
Subsidy payments received in advance			$ 15,688	15,688				15,688	16,658
Advances from the State of New Jersey for bond and housing assistance			20,948	20,948				20,948	23,407
Other current liabilities	65		360	425	$ 213	$ 98		736	784
Mortgagor escrow deposits		7,233	181,984	189,217				189,217	190,537
Interfund allocation	1,383	3,003		4,386			$(4,386)	–	–
Total current liabilities	40,483	76,668	218,980	336,131	213	98	(4,386)	332,056	413,204
Non-current liabilities:									
Bonds and obligations, net	827,464	1,132,743		1,960,207				1,960,207	1,995,141
Minimum escrow requirement		8,831	737	9,568				9,568	9,570
Funds held in trust for mortgagor		11,369	248,401	259,770				259,770	244,907
Deferred revenues			17,770	17,770				17,770	5,530
Other non-current liabilities	1,411	1,275	11,119	13,805	642	3		14,450	13,226
Due to HUD		306		306				306	348
Due to other funds	3,272	900		4,172	1,770		(5,942)	–	–
Total non-current liabilities	832,147	1,155,424	278,027	2,265,598	2,412	3	(5,942)	2,262,071	2,268,722
Total liabilities	872,630	1,232,092	497,007	2,601,729	2,625	101	(10,328)	2,594,127	2,681,926
Net assets:									
Invested in capital assets, net of related debt			13,222	13,222	981			14,203	12,890
Restricted under Bond and Obligation Resolutions	173,922	86,056		259,978				259,978	240,184
Restricted for Special Needs Housing			48,833	48,833				48,833	–
Restricted for Redevelopment				–		1,339		1,339	1,144
Unrestricted (deficit)			493,314	493,314	(2,178)			491,136	488,270
Total net assets (deficit)	$173,922	$ 86,056	$555,369	$ 815,347	$(1,197)	$1,339	$ –	$ 815,489	$ 742,488

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2006
(with comparative summarized financial information for the year ended June 30, 2005) (*in thousands*)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	2006 Total	2005 Total
Operating revenues									
Interest income on mortgage loans	$ 37,731	$81,228	$ 5,528	$124,487				$124,487	$130,094
Fees and charges		7,732	20,635	28,367				28,367	25,930
Other income-net		694	1,141	1,835	$ 244	$ 664	$(664)	2,079	482
Gain on sale of real estate owned			419	419	117			536	–
Total operating revenues	37,731	89,654	27,723	155,108	361	664	(664)	155,469	156,506
Operating expenses									
Interest and amortization of bond premiums and discounts	41,684	67,471	57	109,212				109,212	112,291
Insurance costs	429	970	957	2,356				2,356	2,833
Servicing fees and other	2,494	398	67	2,959				2,959	3,170
Salaries and related benefits	1,977	4,001	10,960	16,938				16,938	15,893
Professional services and financing costs	258	498	589	1,345				1,345	1,306
General and administrative expenses	625	1,151	15,885	17,661	619	469	(664)	18,085	15,172
Loss on sale of real estate owned	238			238				238	1,100
Other expenses	93			93	156			249	–
Provision for loan losses	(1,311)	10,099	10,664	19,452				19,452	23,269
Total operating expenses	46,487	84,588	39,179	170,254	775	469	(664)	170,834	175,034
Net operating income (loss)	(8,756)	5,066	(11,456)	(15,146)	(414)	195	–	(15,365)	(18,528)
Nonoperating revenues/(expenses)									
Contribution from State of New Jersey			50,000	50,000				50,000	–
Investment income	16,479	9,118	13,301	38,898	5			38,903	29,957
Loss on early extinguishment of old debt	(252)	(285)		(537)				(537)	(1,744)
Total nonoperating revenues/(expenses)	16,227	8,833	63,301	88,361	5	–	–	88,366	28,213
Income (loss) before transfers	7,471	13,899	51,845	73,215	(409)	195	–	73,001	9,685
Transfers	1	(1,577)	1,576	–				–	(7)
Increase (decrease) in net assets	7,472	12,322	53,421	73,215	(409)	195	–	73,001	9,678
Net assets, beginning of year	166,450	73,734	501,948	742,132	(788)	1,144		742,488	735,379
Cumulative effect of change in accounting estimate								–	(2,569)
Net assets, beginning of year, as adjusted	166,450	73,734	501,948	742,132	(788)	1,144	–	742,488	732,810
Increase (decrease) in net assets, during year	7,472	12,322	53,421	73,215	(409)	195	–	73,001	9,678
Net assets, end of year	$173,922	$86,056	$555,369	$815,347	$(1,197)	$1,339	$ –	$815,489	$742,488

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Cash Flows

Year ended June 30, 2006
(with comparative summarized financial information for the year ended June 30, 2005) (*in thousands*)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	**Multi-Family Housing Component**	**General Fund**	**2006 Total**	**2005 Total**
Cash flows from operating activities					
Receipts from interest on mortgages and loans	$ 39,728	$ 75,590	$ 8,096	$123,414	$ 127,793
Receipts from fees, charges and other		8,246	37,507	45,753	27,065
Receipts from principal payments on mortgage receivables	113,708	152,894	54,622	321,224	782,806
Payments to vendors and employees	(4,458)	(1,312)	(37,041)	(42,811)	(36,935)
Payments for mortgage purchases and advances	(106,269)	(189,991)	(114,324)	(410,584)	(836,894)
Payments for cost of issuance	(732)	(546)		(1,278)	(3,465)
Payments for funds held in trust			19,076	19,076	48,698
Net cash provided by (used in) operating activities	41,977	44,881	(32,064)	54,794	109,068
Cash flows from non-capital financing activities					
Receipts from proceeds of sale of bonds and obligations	120,000	75,725		195,725	617,435
Payments for retirement of bonds	(177,650)	(132,005)		(309,655)	(768,030)
Payments for interest	(40,285)	(65,249)		(105,534)	(110,752)
Contribution			50,000	50,000	–
Transfers and other	1	(1,577)	1,576	–	(412)
Net cash provided by (used in) noncapital financing	(97,934)	(123,106)	51,576	(169,464)	(261,759)
Cash flows from capital financing activities					
Additions to property, plant and equipment			(3,435)	(3,435)	(899)
Net cash used in capital financing	–	–	(3,435)	(3,435)	(899)
Cash flows from investing activities					
Purchases of investments	(249,827)	(249,488)	(16,088)	(515,403)	(732,431)
Sales/maturities of investments	333,134	288,384	50,872	672,390	914,716
Earnings on investments	16,479	8,898	12,980	38,357	32,507
Net cash provided by investing activities	99,786	47,794	47,764	195,344	214,792
Net increase (decrease) in cash	43,829	(30,431)	63,841	77,239	61,202
Cash and cash equivalents, beginning of year	130,711	79,632	359,951	570,294	509,092
Cash and cash equivalents, end of year	$ 174,540	$ 49,201	$ 423,792	$ 647,533	$ 570,294

New Jersey Housing and Mortgage Finance Agency

Statements of Cash Flows (continued)

Year ended June 30, 2006
(with comparative summarized financial information for the year ended June 30, 2005) (*in thousands*)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	**Multi-Family Housing Component**	**General Fund**	**2006 Total**	**2005 Total**
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$ (8,756)	$ 5,066	$(11,456)	$(15,146)	$ (18,047)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense			1,488	1,488	1,264
Provision for loan losses, net	(1,311)	10,099	10,664	19,452	23,269
(Gain) loss on sale of real estate owned	238		(419)	(181)	1,100
Amortization of premium/discount, refunding costs, bond issue costs	512	435		947	–
Net cash provided by nonoperating activities	40,285	65,249		105,534	110,836
Changes in operating assets and liabilities:					
Loans- net	8,994	(36,215)	(58,276)	(85,497)	(14,250)
Fees and other charges receivable			(604)	(604)	(500)
Due from loan servicers and insurers	942		(15)	927	1,452
Deferred charges - bond issuance costs – net	(75)	29		(46)	2,154
Change in accrued interest receivable	(30)	85	519	574	288
Other assets	13	(833)	120	(700)	–
Due to/from other funds	(74)	198	(124)	–	–
Accrued interest payable on bonds	1,099	1,025		2,124	(2,154)
Advance from the State of New Jersey		(1,779)	(680)	(2,459)	(438)
Funds held in trust for mortgagor		2,165	12,709	14,874	–
Minimum escrow requirement		(30)	28	(2)	(115)
Mortgagor escrow deposits		(235)	(1,085)	(1,320)	(788)
Subsidy payments received in advance			(970)	(970)	4,565
Deferred revenue			12,240	12,240	2,011
Other liabilities	140	(378)	3,797	3,559	(1,579)
Net cash provided by (used in) operating activities	$41,977	$ 44,881	$(32,064)	$ 54,794	$109,068

See accompanying notes.

1. Description of the Agency

Authorizing Legislation and Organization - The New Jersey Housing and Mortgage Finance Agency (the "Agency"), which is established in, but not part of, the Department of Community Affairs, is a body, corporate and politic, created by the New Jersey Housing and Mortgage Finance Agency Law of 1983, constituting Chapter 530, Laws of New Jersey, 1983 (the "Act"), which combined the New Jersey Housing Finance Agency and the New Jersey Mortgage Finance Agency into a single agency.

The initial legislation and subsequent amendment grant the Agency the power to issue debt to finance the construction and rehabilitation of housing projects for families of low and moderate income by providing mortgage loans to qualified housing sponsors or to increase the funds available for residential mortgage and rehabilitation or improvement loans. In addition, the Agency is authorized to make loans to boarding home operators for life safety improvements.

The Agency is governed by nine members: the Commissioner of the Department of Community Affairs who serves as Chair, the State Treasurer, the Attorney General, the Commissioner of Banking and Insurance, and the Commissioner of the Department of Human Services who are members of the New Jersey Housing and Mortgage Finance Agency ex officio, and four persons appointed by the Governor with the advice and consent of the State Senate for terms of three years.

Certain bonds and other obligations issued under the provisions of the Act are general obligations of the Agency to which its full faith and credit are pledged. Certain mortgages issued from the proceeds of Multi-Family Housing Revenue Bonds are insured by the Federal Housing Administration and one of these issues is Government National Mortgage Association ("GNMA") backed. The Agency has no taxing power, however, certain bonds issued are separately secured, special and limited obligations of the Agency. See Note 10 to the financial statements for a more detailed discussion of the Agency's bonds, notes and obligations.

Federal Subsidy Programs - Many of the Agency-financed Multi-Family Housing projects (the "projects") have entered into subsidy contracts with the U.S. Department of Housing and Urban Development ("HUD") under Section 236 of the National Housing Act, as amended, or under Section 8 of the United States Housing act of 1937, as amended (Note 5). The subsidies, paid to the Agency for the account of the respective projects, have been pledged, under the terms of the bond resolutions, for the security of the bondholders.

1. Description of the Agency (continued)

The Section 8 program provides for payment of housing assistance payments to or for the account of the owners of projects assisted under such program. The housing assistance payments represent the difference between the total contract rents (an average of 141% of fair market rents as determined by HUD) for such developments and the eligible tenants' rental payments, which are up to 30% of each such tenant's adjusted income. The housing assistance payments, as adjusted from time to time by HUD to reflect changing economic conditions and subject to the limitations of the Section 8 program, together with the tenants' rental payments, are used to pay all operating costs of the project and debt service on the project's mortgage.

The Section 8 Housing Assistance Payments ("HAP") received by the projects amounted to approximately $327,905 and $315,275 for the fiscal years ended June 30, 2006 and 2005 respectively.

The Section 236 program provides for interest reductions on mortgages of projects assisted under the program. HUD subsidizes the difference between the actual amortization schedule on the mortgages and an amortization schedule based upon a 1% interest rate. Several Section 236 projects also receive additional rental assistance for eligible tenants. The payments represent the difference between contract rent (as defined above) and the tenants' eligible rental payments.

The Section 236 Interest Reduction Payments ("IRP") received by the Agency amounted to approximately $19,158 and $18,562 for the fiscal years ended June 30, 2006 and 2005.

2. Reporting Entity

The financial statements include the accounts of the Agency, STAR and ABC. All significant interfund accounts and transactions have been eliminated.

Component Unit – The Agency is a component unit of the State of New Jersey as described in Government Auditing Standards Board Statement ("GASB") No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These financial statements are discretely presented as part of the State's financial statements.

2. Reporting Entity (continued)

Discretely Presented Component Units – Discretely presented component units are entities which are legally separate from the Agency, but are financially accountable to the Agency, or whose relationship with the Agency is such that exclusion would cause the Agency's financial statements to be misleading or incomplete. GASB Statement No. 14, as amended by GASB Statement No. 39 also provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39. The component units' columns in the financial statements include the financial data of the component units of the Agency. They are reported in separate columns. Because of the nature of the services they provide and the Agency's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39.

STAR

On April 29, 1996, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the Statewide Acquisition and Redevelopment Corporation ("STAR"). The Board of Trustees and the officers of STAR are Agency employees. The Agency Board has authorized STAR to act as interim owner of certain multi-family projects including Amity Village I and II and Phase II of the Scattered Site AIDS Program

STAR was formed to act as a housing service corporation to purchase, finance, own, operate, maintain, develop, rehabilitate, construct, transfer, or resell properties under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency, particularly any project or program where the Agency administers Section 8 or other federal subsidies.

ABC

On April 17, 1997, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the A Better Camden Corporation ("ABC"). The Board consists of four State Directors and three Camden Directors as follows: The Commissioner of the New Jersey Department of Community Affairs, ex officio, or his or her designee; the Executive Director of the Agency, ex officio, or his or her designee; two employees of the Agency appointed by, and serving at the pleasure of the Executive Director of the Agency; the Mayor of the City of Camden, ex officio, or his or her designee; the Executive Director

2. Reporting Entity (continued)

of the Camden Redevelopment Agency, ex officio, or his or her designee; and one resident of Camden appointed by a majority of the other directors to serve for a term of two years. ABC was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in Camden, particularly for persons of low and moderate income.

Separate financial statements are issued for each of the component units and can be obtained by contacting the New Jersey Housing and Mortgage Finance Agency, 637 South Clinton Avenue, P.O. Box 18550, Trenton, New Jersey 08650-2085.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency and its component units are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Operating costs and expenses are charged to expense as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the GASB. GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, was issued to give guidance in determining Generally Accepted Accounting Principles (GAAP) for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements after that date.

The Agency has elected not to follow any FASB pronouncements issued after November 30, 1989.

Descriptions of Funds

The accounts of the Agency are organized on the basis of separate enterprise funds, each of which is considered to be a separate accounting entity with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. Within

3. Summary of Significant Accounting Policies (continued)

each fund there are accounts required by the respective bond resolutions. Assets under the respective bond resolutions are restricted and are not available for any other purpose other than as provided.

General Fund – The General fund is utilized to record transactions which are not directly related to a specific bond resolution. All Agency expenses are recorded in this fund except provisions for potential loan losses, and specific program expenses which are charged to the loan-related funds.

Multi-Family Program –The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs.

Single Family Program –The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons and families of low and moderate income.

The financial statements include the accounts of the Agency, STAR and ABC. All significant interfund accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash equivalents are considered highly liquid investments with a maturity of three months or less when purchased and include short-term highly liquid money market funds, overnight repurchase agreements and amounts held in a tax-free cash management fund, all of which are readily convertible to known amounts of cash.

Investments

Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Therefore, United States Government and Agency securities, asset-backed securities, corporate notes and commercial paper are reported at fair value.

3. Summary of Significant Accounting Policies (continued)

Capital Assets and Related Depreciation

The Agency capitalizes all assets at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets as follows:

Asset Class	Useful Lives
Buildings and building improvements	25
Automobiles	4
Machinery and equipment	4-10
Furniture and equipment	5

Expenses for maintenance and repairs are charged to operating expenses. Renewals and betterments are capitalized. At the time properties are retired or otherwise disposed of, their cost and related accumulated depreciation are eliminated from the accounts and the gains or losses from such disposals are credited or charged to operations.

Funds and Deposits Held for Projects

Certain funds and deposits are held by the Agency's General Fund for projects in interest-bearing accounts. Such interest accrues to the benefit of the projects and is not recorded as Agency revenue.

Debt Issuance Costs, Bond Discount and other Bond Related Costs

Debt issuance costs are deferred and amortized over the life of the related bonds using a method approximating the effective interest method. Discount and premium on bonds are deferred and amortized to interest expense using a method approximating the effective interest method. Deferred bond refunding costs are amortized over the shorter of the life of the refunding bonds or the refunded bonds.

Operations

Fees and charges income in the Multi-Family Housing Component includes an annual servicing fee on the mortgages, which generally range from zero to 0.65 of 1% of the original mortgage. These fees are amortized into income over the lives of the loans by the use of a method that approximates the level yield method and accrued as due monthly.

3. Summary of Significant Accounting Policies (continued)

The Housing Finance Fund requirements receivable represents fees and charges due, but not collected, from projects originally funded under the Multi-Family General Housing Loan Bond Resolutions. The fees and charges are due over the life of the bonds to fund the Housing Finance Fund requirements related to these bond resolutions. The housing finance fees past due have been recorded as receivables with revenues offset by reserves until they are collected.

The Agency periodically reviews its mortgage loans receivable, debt service arrears receivables, supplemental mortgages and other loans and provides for possible losses. Loans are considered delinquent when principal and interest payments are 30 days past due.

Mortgage Loans

Mortgage loans are stated at principal amounts outstanding, net of unearned discount. Interest income on first mortgage loans is accrued and credited to interest income as earned. Loan origination costs and commitment fees are deferred and recognized over the life of the mortgage loan as an adjustment to the loan's yield. The Agency is involved in foreclosure proceedings relating to both single and multi-family mortgages. For single-family mortgages, the Agency allows its outside servicers to represent them in Agency-approved foreclosure proceedings. The Agency enacts foreclosure proceedings against Multi-Family loans at the direction of its executive director with the approval of the Agency's Board. The Agency is the first lien holder for all supplemental mortgages. Interest income on supplemental mortgages is not accrued, but is credited to income as collected.

Allowance for Loan Losses

Certain projects have not generated sufficient cash flow to meet both operating expenses and debt service payments as a result of delays in attaining full occupancy levels, rising operating costs, or a combination thereof. The Agency has developed programs designed to provide adequate cash flow for these projects by obtaining additional rental assistance subsidies from HUD, rent increases, additional contributions by limited-dividend sponsors, the State of New Jersey Bond and Housing Assistance Funds and the Agency's General Fund. The Agency has provided allowances for loan losses aggregating $172,055 and $201,672 as of June 30, 2006 and 2005, against mortgage loans receivable, debt service arrears receivable, supplemental mortgages, other loans, and fees and charges including provision for negative cash flows and cost overruns for these projects. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may

3. Summary of Significant Accounting Policies (continued)

become uncollectible, based on evaluations of the collectibility of the loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. Economic conditions may result in the necessity to change the allowance quickly in order to react to deteriorating financial conditions of the Agency's borrowers. As a result, additional provisions on existing loans may be required in the future if borrowers' financial conditions deteriorate or if real estate values decline.

Advances from the State of New Jersey for Bond and Housing Assistance

Pursuant to the provisions of agreements with the State of New Jersey Department of Community Affairs, the Agency has received funds from the 1968 and 1976 State of New Jersey General Obligation Bond Assistance Funds. These funds have been pledged as security for the bonds of certain bond resolutions and to provide supplemental financing to certain housing projects (Note 7).

Advances from the State of New Jersey for Affordable Housing

Pursuant to the provisions of an agreement with the State of New Jersey Department of Community Affairs, the Agency has received funds to facilitate the building of low income projects. Outstanding project commitments amounted to $3,081 as of June 30, 2006 and 2005.

Compensated Absences

Agency employees are granted vacation, sick and personal leave in varying amounts under the Agency's personnel policies. Upon termination employees are reimbursed for unused vacation and personal time accrued at their current hourly rate of pay. Unused sick time is reimbursed to employees only upon retirement. It is based upon their current hourly rate of pay and limited to one-half of the total amount up to a maximum of $15. The liability for compensated absences has been recorded in the Other Non-Current Liabilities section in the Statement of Net Assets.

Minimum Escrow Requirement

In accordance with the bond resolutions and/or deed and regulatory agreements, substantially all permanently financed projects are required to deposit with the Agency one month's principal and interest on their mortgage loans as security against the late payment of subsequent remittances.

3. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets comprise the excess of revenues over expenses from operating income, non-operating revenues, expenses and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - Net assets are reported as restricted when constraints placed on net asset use either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". This component includes net assets that may be designated for specific purposes by the Board.

When both restricted and unrestricted resources are available for use, it's the Agency's policy to use restricted resources first and unrestricted resources as needed.

Operating and Non-Operating Revenues and Expenses

Operating revenues consist primarily of all revenues derived from interest income on mortgage loans, fees and charges on mortgages and loans issued and gains on the sale of real estate owned. Investment income, which consists of interest income earned on various interest-bearing accounts and on investments in debt securities is reported as non-operating revenues.

Operating expenses include general and administrative expenses of the Agency; salaries and benefits; costs and expenses incurred in connection with the amortization, issuance and sale of certain bonds and notes; fees and expenses of trustees and depository and paying agents; and other costs associated with the Agency's various loan programs. Non-operating expenses principally include loss on early extinguishment of debt.

3. Summary of Significant Accounting Policies (continued)

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

Tax Status

The Agency is exempt from federal income taxes under the Internal Revenue Code Section 115 and from state income taxes under N.J.S.A. 27-25-16. Accordingly, no provision is recorded for federal and state income taxes.

4. Early Extinguishment of Debt

During the fiscal years ended June 30, 2006 and 2005, as a result of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately $147,980 and $484,055. Net losses of $537 and $1,744 for the fiscal years ended June 30, 2006 and 2005 on early extinguishment of debt have been recorded as a non-operating expense. These losses arise as a result of immediate recognition of deferred bond issuance costs, bond discounts that would have been amortized over the life of the applicable bond issues had they not been retired, and call premiums as required by the bond resolutions.

5. Investments and Deposits

Investment Policy – Agency General Fund

The Agency has established an investment policy, which pertains to assets of the Agency, such as the General Fund assets, which are held outside of the Agency's Bond Resolutions. The primary investment objectives of the Agency's investment activities are to preserve principal, meet liquidity needs, further purposes of the Agency and provide a suitable return in relationship to current market conditions and the established investment policy. The Agency's investment policy includes guidelines as to liquidity and duration, eligible investments, concentration limits, credit quality and currency. The Agency's General Fund cash and equivalents are managed by Merrill Lynch Investment Managers, L.P. ("MLIM") pursuant to an agreement between the Agency and MLIM. MLIM has been instructed to the follow the Agency's aforementioned investment policy. Effective September 2006, MLIM combined with BlackRock, Inc. ("BlackRock"). The terms of the Agency's Investment Advisory/Management Agreement will remain the same with BlackRock.

5. Investments and Deposits (continued)

The investment policy permits investments in obligations issued by U.S. Treasury or guaranteed by the U.S. government as well as obligations issued by or guaranteed by U.S. federal agencies, commercial paper, repurchase agreements having maximum maturities of seven days or less that and which are fully collateralized by U.S. government and/or agency securities, money market mutual funds and commercial bank obligations including time deposits, bank notes and bankers' acceptances.

Investment Policy - Bond Resolutions

The Agency's Single Family and Multi Family Bond Resolutions govern the investment of assets and funds held under the Resolutions and, as such, establish permitted investments in which funds held under the Resolutions may be invested. The Agency currently has two Single Family Bond Resolutions and five Multi-Family Resolutions, all of which govern the types of investments in which moneys held under each resolution may be invested. Generally, the Agency's Bond Resolutions permit the deposit of funds with commercial banks and the investment of funds in, time deposits and certificates of deposits, U.S. government obligations, obligations of certain U.S Government Agencies or obligations that are guaranteed by the U.S. Government. Additionally, certain of the Agency's Resolutions also permit the investment in money market funds with stipulated rating and maturity levels, as well as repurchase agreements, certain federal funds, commercial paper, banker's acceptances and funds of which the N.J. treasurer is custodian.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency has no formal policy as to custodial credit risk as to cash and equivalents held outside of its Bond Resolutions. Certain of the Agency's Bond Resolutions have varying provisions which relate to custodial credit risk including requirements that certain moneys and certain deposits of funds held under Resolutions be insured by federal deposit insurance or collateralized or secured by the U.S. government, or U.S. government agency obligations. In some cases, the Trustee or paying agent is excluded from these requirements related to funds held by them in trust. In some cases certain of the Agency's Bond Resolutions require that the holders (banks and other entities) of certain deposits have certain minimum long term or short-term credit rating levels. All funds are deposited in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA).

5. Investments and Deposits (continued)

As of June 30, 2006, the carrying value of the Agency's deposits was $38,089 and the bank balance was $41,193 of which $34,781 was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Agency, and are held by either the counterparty or the counterparty's trust department or agent but not in the Agency's name. At June 30, 2006, the Agency was not exposed to custodial credit risk.

New Jersey Cash Management Fund

During the year, the Agency invested certain funds in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Investments with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. At June 30, 2006 and 2005, the Agency's investment with the New Jersey Cash Management Fund amounted to $593,003 and $500,209, respectively.

Investment Type and Interest Rate Risk Disclosure

The Agency holds various investments, outside of the Bond Resolutions, within the Agency's General Fund. As discussed, these investments are currently managed by MLIM/BlackRock. In addition to the eligible investments permitted by the Agency's Investment Policy discussed above, the aforementioned Investment Policy also permits corporate bonds, notes and medium term notes. Also permitted are asset backed securities, mortgage backed securities and collateralized mortgage obligations, however, these securities must be rated triple A by at least one of the national rating agencies. Equity investments in project-specific housing and housing-related developments which further the purposes of the Agency are also permitted with approval from the Agency Board. However, these investments may not exceed $10 million. Further, excluding the aforementioned equity investments, the Agency's Investment Policy indicates that the average effective duration of the portfolio is not to exceed 2.5 years and the maximum effective duration of any individual security is not to exceed 6 years.

5. Investments and Deposits (continued)

In addition to those investments discussed above, certain of the Agency's Bond Resolutions also permit guaranteed investment contracts or investment agreements, obligations or notes of certain U.S. government agencies which are not backed by the U.S. government, certain short term and long term debt providing the issuers fall within permissible rating categories, direct and general obligations of the State of New Jersey guaranteed by the State, obligations of states and municipalities which are fully secured by contributions contracts with the U.S. government, certain stripped U.S. Treasury securities, shares of open-end, diversified investment companies having certain minimum credit ratings and Federal Housing Administration debentures.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's investment policy as to moneys held outside the bond resolutions does impose concentration limits on certain types of investments which may limit the Agency's exposure to market interest rate risk. Certain investment types may evidence varying sensitivity to changes in interest rates. Corporate Bonds and notes and Medium term Notes may not exceed 50% of the aggregate market value of the portfolio. Asset Backed Securities may not exceed 30% of the aggregate market value of the portfolio and mortgage backed securities and collateralized mortgage obligations may not exceed 30% of the aggregate market value of the portfolio.

The average effective duration of the General Fund investment portfolio is not to exceed 2.5 years.

Within the Agency's Bond Resolutions, the Agency generally manages overall exposure to interest rate risk by the use of derivative instruments. In this regard, the Agency has utilized both interest rate swap agreements and interest rate cap agreements within the Multi-Family Revenue Bond Resolution, the Multi-Family Housing Revenue Bond Resolution and the Single Family Housing Revenue Bond Resolution. For a further discussion of the Agency's use of derivatives, please refer to Note 20 - Derivatives.

5. Investments and Deposits (continued)

As of June 30, 2006 and 2005, the Agency had the following investments, maturities and credit quality.

	Fair Value		Weighted-Average Maturity (years)		Credit Ratings	
	June 30		June 30			
	2006	**2005**	**2006**	**2005**	**S&P**	**Moody's**
Investment Type						
Guaranteed Investment Contracts	**$ 338,969**	$468,824	20.03	12.14	Unrated	Unrated
U.S. Treasury Securities	**20,137**	21,005	0.03	0.33	AAA	Aaa
Federal Agency Notes	**2,979**	3,222	26.06	27.06	AAA	Aaa
U.S. Government and Agency-Backed Securities	**111,639**	99,382	2.40	2.37	AAA	Aaa
Non-Agency Mortgage-Backed Securities	**969**	1,358	1.10	1.92	AAA	Aaa
Commercial Paper	**6,396**	5,899	0.01	0.01	A1 to A2	P-1 to P-2
Asset Backed Securities	**28,709**	43,457	0.99	1.11	AAA	Aaa
Corporate Notes	**99,540**	145,168	2.23	2.37	AAA to A-	Aaa to A3
New Jersey Cash Management Fund	**593,003**	500,209	–	–	Unrated	Unrated
Subtotal	**1,202,341**	1,288,524				
Less amount reported as cash equivalents	**593,003**	500,209				
Total investments	**$ 609,338**	$ 788,315				

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Agency's investment policy specifies minimum rating levels for certain types of eligible investments. Asset backed securities, mortgage backed securities and collateralized mortgage obligations must have a minimum rating of triple A. Further, the minimum short term debt rating of money market instruments or other instruments with maturities of less than one year is Tier Two while the minimum long-term debt rating for all other instruments, excluding the permitted equity investments, is single A.

The Agency's Bond Resolutions establish varying minimum rating levels for different types of investments. Generally, commercial paper must be rated in the highest rating category or A-1 / P-1 and money market funds must be rated in the highest rating category or in some cases must be rated at least the unenhanced rating on the bonds. Also, certain resolutions require that certain deposits or various short term investments or cash equivalents may only be held by providers in either the highest or two highest rating categories. In some cases, certain debt obligations and state obligations must be rated in either the highest or the two

5. Investments and Deposits (continued)

highest rating categories. The Agency's guaranteed investment contracts which are permitted by certain of the Agency's Bond Resolutions are not rated, however, the Bond Resolutions which allow guaranteed investment contracts require either that the provider of such contracts have either a long term rating of double A or in some cases A-1 if the agreement term is less than one year or be rated within the two highest credit rating categories by two national credit rating agencies, must not affect the rating of the bonds or must be rated at least the unenhanced rating on the bonds.

Concentration of Credit Risk

The Agency's aforementioned investment policy does place limits on the amounts that may be invested in any one issuer relating to certain types of investments. There are no concentration limits on obligations of the U.S. government and U.S. federal agencies however, obligations of all other issuers are limited such that those with any one issuer may not exceed 5% of the aggregate market value of the portfolio.

The following table shows investments in issuers that represent 5 percent or more of total investments at June 30, 2006 and 2005:

	Percent of Total Investments	
	June 30	
Issuer	**2006**	**2005**
IXIS Funding Corporation	**36.83%**	8.55%
Federal National Mortgage Association	**5.45**	–
AIG Matched Funding Corporation	**–**	9.55
Rabobank International	**–**	11.95
XL Asset Funding Corporation	**–**	18.69

The Agency also purchases U.S. Government securities from certain financial institutions under agreements whereby the seller has agreed to repurchase the securities at cost plus accrued interest. During the fiscal years ended June 30, 2006 and 2005, the maximum amount invested in repurchase agreements by the Agency was $66,225 and $139,558, respectively. All repurchase agreements were invested overnight.

5. Investments and Deposits (continued)

Pursuant to most bond resolutions, the Agency is required to maintain certain invested debt service reserves with the Trustees to fund potential deficiencies in principal and interest required to be paid in succeeding fiscal years. These debt service reserve investments for the Multi-Family Component (funded by bond proceeds) are included in the investment balances above and aggregate a fair value of approximately $8,739 and $11,479 as of June 30, 2006 and 2005, respectively. The debt service reserve for several of the Multi-Family issues is called the Housing Finance Fund. The debt service reserve investments for the Single-Family Component (funded by bond proceeds or contributed cash) are included above and aggregate a fair value of approximately $14,853 and $12,638 as of June 30, 2006 and 2005, respectively. In addition to the above investments, the debt service reserves may be satisfied with a Surety Bond issued by a qualified insurer. The Multi-Family component had $130,638 and $126,351 and the Single-Family component had $15,895 and $18,424 of Surety Bonds outstanding as of June 30, 2006 and 2005, respectively.

Investment Income

Investment income is comprised of the following elements described below:

Interest income - is the return on the original principal amount invested and the amortization of premium/discount on short term investments.

Unrealized Gain (Loss) on Investments - takes into account all changes in fair value that occurred during the year.

The Agency's investment income for the fiscal years ended June 30, 2006 and 2005:

	June 30	
Issuer	**2006**	**2005**
Interest income on investments	**$40,066**	$30,954
Unrealized gain (loss) on investments	**(1,163)**	(997)
	$38,903	$29,957

6. Mortgage Loans Receivable

Single-Family Mortgage Component

Mortgage loans held by the Single-Family Mortgage Component of the Agency have stated interest rates and are secured by first liens on the related real property. The outstanding balances by type of loan as of June 30, 2006 and 2005 are as follows:

	June 30	
	2006	**2005**
Mortgage loans receivable	**$658,978**	$671,684
Unearned discounts - net	**(84)**	(106)
Loan origination costs - net	**7,732**	7,560
Commitment fees - net	**(3,638)**	(4,475)
Allowance for loan losses	**(3,751)**	(3,977)
Mortgage receivable - net	**659,237**	670,686
Less current portion	**(16,575)**	(16,901)
Long term portion	**$642,662**	$653,785

Multi-Family Housing Component

The Multi-Family Housing Component of the Agency's mortgage loans receivable as of June 30, 2006 and 2005 consisted of the following:

	June 30	
	2006	**2005**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 271,180**	$ 302,519
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**225,846**	235,297
Unsubsidized mortgage loans	**572,026**	535,479
Government National Mortgage Association, 9.95%, maturity November 15, 2020	**4,932**	4,997
Subtotal	**1,073,984**	1,078,292
Allowance for loan losses	**(64,515)**	(60,940)
Construction advances (undisbursed)	**82,206**	38,186
Mortgage receivable - net	**1,091,675**	1,055,538
Less current portion	**(46,648)**	(38,094)
Long term portion	**$1,045,027**	$1,017,444

6. Mortgage Loans Receivable (continued)

General Fund Component

The General Fund mortgage loans receivable as of June 30, 2006 and 2005 consisted of the following:

	June 30	
	2006	**2005**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 31,026**	$ 18,998
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**19,873**	13,598
Unsubsidized mortgage loans	**164,343**	150,298
Unearned discounts - net	**(79)**	(82)
Loan origination costs - net	**121**	111
Subtotal	**215,284**	182,923
Allowance for loan losses	**(47,956)**	(43,332)
Undistributed mortgage proceeds	**(12,110)**	(14,705)
Mortgage receivable - net	**155,218**	124,886
Less current portion	**(22,650)**	(3,927)
Long term portion	**$132,568**	$120,959

These Multi-Family Housing Component mortgage loans are repayable over terms originally up to 48 years and bear interest at rates from 0% to 13.25% per annum. Substantially all mortgage loans receivable are collateralized by first mortgages on the property of the housing sponsors and contain exculpatory clauses with respect to the liability of the principals of such housing sponsors.

Construction advances made from the proceeds of the sale of bonds and obligations are recorded as mortgage loans receivable. These funds are disbursed for construction costs, interest, carrying fees, working capital advances and other project-related expenses. Upon substantial completion and occupancy of the project, amortization of the loan will commence.

7. Debt Service Arrears Receivable

Debt service arrears consist of mortgage principal, interest payments and fees in arrears on permanently financed loans, net of the allowance for loan losses as described in Note 2. The debt service arrears receivable was $56,108 and $49,534 at June 30, 2006 and 2005. The debt service allowance for loan losses was $53,298 and $47,209 as of June 30, 2006 and 2005. A subsidy payment receivable of $1,285 and $1,208 was due at June 30, 2006 and 2005.

The Agency requires FHA guarantees, VA insurance, private mortgage insurance, pool insurance and other features to increase the security of Single-Family mortgage loans depending on the individual bond resolution and individual mortgages.

For the Single-Family component, the Agency's allowance is based on historical loss percentages applied to all mortgage loan principal balances. Accrued interest in excess of 180 days is fully reserved. On home improvement loans, the Agency provides an allowance for 10% of the principal in arrears and all interest in arrears over 90 days not deemed reimbursable from FHA Title One Insurance.

For the Multi-Family Housing Component, the Agency's policy is to provide an allowance for substantially all interest receivable on first mortgage loans when interest payments become past due, except for Section 8 program loans for which no allowance is recorded. An allowance of approximately $30,152 and $24,591 against interest receivable was recorded at June 30, 2006 and 2005. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to $271,035 and $245,477 as of June 30, 2006 and 2005.

8. Supplemental Mortgages and Other Loans

Certain projects have received supplemental mortgages and other loans from the Agency's General Fund and/or from the State of New Jersey Bond and Housing Assistance Funds. An allowance for loan losses has not been provided on supplemental mortgages funded from the State Bond and Housing Assistance Funds because the Agency is not obligated to repay the State until the projects repay the Agency.

8. Supplemental Mortgages and Other Loans (continued)

The supplemental mortgages and other loans receivable as of June 30, 2006 and 2005, consisted of the following:

	June 30	
	2006	**2005**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 2,332**	$ 1,441
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**6,487**	6,743
Agency supplemental mortgages	**154,013**	134,812
HUD supplemental mortgages	**881**	881
Loans to projects	**19,948**	7,155
State of New Jersey supplemental mortgages	**13,052**	14,345
Other	**57,511**	61,533
Subtotal	**254,224**	226,910
Allowance for loan losses	**(55,833)**	(46,214)
Undisbursed supplemental mortgage proceeds	**(9,160)**	(17,566)
Supplemental mortgages and other loans receivable - net	**189,231**	163,130
Less current portion	**(2,171)**	(1,475)
Long term portion	**$187,060**	$161,655

9. Capital Assets

Capital assets are summarized as follows:

	Balance 2005	Additions	Deletions	Balance 2006
Non-depreciable capital assets:				
Land	$ 1,384	$ 26	$ (64)	$ 1,346
Depreciable capital assets:				
Building and building improvements	18,084	3,071		21,155
Motor vehicles	546	77	(86)	537
Machinery and equipment	4,599	300		4,899
Furniture and fixtures	227	6		233
Totals	24,840	3,480	(150)	28,170
Less accumulated depreciation	(11,950)	(2,017)	–	(13,967)
Capital Assets - net	$ 12,890	$ 1,463	$(150)	$ 14,203

	Balance 2004	Additions	Deletions	Balance 2005
Non-depreciable capital assets:				
Land	$ 1,384			$ 1,384
Depreciable capital assets:				
Building and building improvements	18,084			18,084
Motor vehicles	430	$ 116		546
Machinery and equipment	4,488	884	$(773)	4,599
Furniture and fixtures	415	2	(190)	227
Totals	24,801	1,002	(963)	24,840
Less accumulated depreciation	(10,068)	(1,882)	–	(11,950)
Capital Assets - net	$ 14,733	$ (880)	$(963)	$ 12,890

Depreciation expense was $2,017 and $1,882, respectively for the fiscal years ended June 30, 2006 and 2005, respectively.

10. Bonds and Obligations

The Agency obtains funds to finance its various mortgage programs through the sale of bonds and other obligations. Interest on Agency bonds and obligations is generally payable monthly, quarterly or semiannually. Generally, bond principal is due in annual or semiannual installments. Term bonds are subject to redemption by application of sinking fund installments. Pursuant to the related bond and obligation resolutions, the Agency has authorized and issued as of June 30, 2006 the following bonds and obligations:

Description of Bonds as Issued	Bonds Outstanding June 30, 2005	Issued	Matured/ Called/ Redeemed	Bonds Outstanding June 30, 2006	Amount Due Within One Year
Single Family					
Home Buyer Revenue Bonds:					
1995 Series N, 4.95% to 6.00%, due 2004 to 2016	$ 23,695		$ (2,020)	$ 21,675	$ 2,135
1995 Series O, 6.125% to 6.35%, due 2021 to 2027	5,460		(3,730)	1,730	
1996 Series P, 4.75% to 5.60%, due 2004 to 2013	12,840		(3,735)	9,105	1,620
1996 Series R, 5.00% to 5.60%, due 2006 to 2013	16,135		(1,200)	14,935	2,500
1996 Series S, 5.00% to 6.00%, due 2004 to 2021	15,090		(1,660)	13,430	
1997 Series T, 4.90% to 5.60%, due 2007 to 2017	4,300			4,300	290
1997 Series U, 4.90% to 5.85%, due 2004 to 2029	84,955		(3,800)	81,155	3,710
1998 Series V, 4.75% to 5.25%, due 2009 to 2026	23,340			23,340	2,210
1998 Series W, 4.30% to 4.75%, due 2004 to 2017	14,260		(2,120)	12,140	
1998 Series X, 5.25% to 5.35%, due 2012 to 2029	21,620		(11,565)	10,055	
1999 Series Z, 5.25% to 5.70%, due 2010 to 2017	15,365			15,365	
1999 Series AA, 4.80% to 5.45%, due 2004 to 2026	71,410		(15,635)	55,775	7,505
2000 Series BB, 4.35% to 5.30%, due 2004 to 2017	29,535		(2,500)	27,035	2,625
2000 Series CC, 4.90% to 5.875%, due 2017 to 2031	59,635		(8,375)	51,260	
2003 Series FF, variable rate, due 2009 to 2025	63,925		(10,060)	53,865	
Subtotal Home Buyer Revenue Bonds	461,565	$ –	(66,400)	395,165	22,595

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2005	Issued	Matured/ Called/ Redeemed	Bonds Outstanding June 30, 2006	Amount Due Within One Year
Single Family (continued)					
Housing Revenue Bonds:					
2003 Series C, 1.65% to 5.00%, due 2005 to 2033	$ 21,440		$ (2,560)	$ 18,880	$ 850
2003 Series D-1, variable rate, due 2014 to 2023	13,565			13,565	
2003 Series D-2, variable rate, due 2024 to 2034	24,015			24,015	
2004 Series G, 1,.60% to 4.25%, due 2005 to 2015	27,780		(11,095)	16,685	3,305
2004 Series H, 3,.95% to 5.25%, due 2011 to 2034	31,555		(6,030)	25,525	
2004 Series I, variable rate, due 2025 to 2034	92,175		(475)	91,700	500
2005 Series J, variable rate, due 2005	26,195		(26,195)		
2005 Series K, variable rate, due 2005	64,070		(64,070)		
2005 Series L, 2.625% to 4.35%, due 2006 to 2017	13,405			13,405	820
2005 Series M, 4.87% to 5.00%, due 2026 to 2036	18,595		(825)	17,770	
2005 Series N, variable, due 2017	38,050			38,050	1,230
2005 Series O, variable, due 2026 to 2031	79,950			79,950	
2005 Series P, variable, due 2008 to 2025		$ 22,320		22,320	
2005 Series Q, variable, due 2010 to 2032		64,070		64,070	
2005 Series R, variable, due 2031 to 2038		33,610		33,610	
Subtotal Housing Revenue Bonds	450,795	120,000	(111,250)	459,545	6,705
Total Single Family	912,360	120,000	(177,650)	854,710	29,300
Net premium (discount) on bonds payable	2,374			2,255	
Deferred bond refunding costs	(214)			(201)	
Total Single Family Bonds Payable (net)	914,520			856,764	
Multi Family					
General Housing Loan Bonds:					
1970 Series A, 4.50%, due 2004 to 2019	2,750		(135)	2,615	140
1971 Series A, 5.35% to 5.40%, due 2004 to 2019	19,925		(1,450)	18,475	1,525
1972 Series A, 5.70% to 5.80%, due 2004 to 2013	16,530		(1,850)	14,680	1,965
1972 Series B, 5.20% to 5.25%, due 2004 to 2021	29,735		(3,545)	26,190	1,320
Subtotal General Housing Loan Bonds	68,940		(6,980)	61,960	4,950

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2005	Issued	Matured/ Called/ Redeemed	Bonds Outstanding June 30, 2006	Amount Due Within One Year
Multi Family (continued)					
Section 11(b) Multi-Family Housing Revenue Bonds:					
1983 Series A (Highview Terrace) 10.375%, due 2004 to 2025	$ 2,775		$ (40)	$ 2,735	$ 45
Multi-Family Housing Revenue:					
1991 Series I, (Presidential Plaza) 6.50% to 7.00%, due 2004 to 2030	124,255		(2,015)	122,240	2,160
Multi-Family Housing Revenue Bonds 1995 Resolution:					
1996 Series A, 5.25% to 6.25%, due 2005 to 2028	25,325		(25,325)		
1996 Series B, 7.33% to 8.37%, due 2004 to 2028	12,290		(12,290)		
1997 Series A, 4.45% to 5.65%, due 2004 to 2040	65,525		(835)	64,690	880
1997 Series B, 4.30% to 5.40%, due 2004 to 2028	10,545		(235)	10,310	250
1997 Series C, 6.47% to 7.42%, due 2004 to 2040	18,200		(860)	17,340	950
1999 Series A, 3.95% to 5.15%, due 2004 to 2030	18,945		(375)	18,570	385
1999 Series B, 3.85% to 4.70%, due 2004 to 2013	1,350		(145)	1,205	155
1999 Series C, 5.97% to 7.12%, due 2004 to 2030	5,425		(90)	5,335	95
2000 Series A1, 5.10% to 6.35%, due 2004 to 2032	14,855		(230)	14,625	245
2000 Series A2, 5.10% to 6.35%, due 2004 to 2029	2,765		(50)	2,715	50
2000 Series B, 5.00% to 6.25%, due 2004 to 2026	51,495		(1,955)	49,540	2,170
2000 Series C,1 8.38%, due 2004 to 2032	41,230		(450)	40,780	475
2000 Series C2, variable rate, due 2004 to 2032	5,785		(60)	5,725	70
2000 Series E1, 4.65% to 5.75%, due 2004 to 2025	53,885			53,885	3,205
2000 Series E2, 4.65% to 5.75%, due 2004 to 2025	2,995			2,995	110
2000 Series F, 7.93%, due 2004 to 2031	16,125		(190)	15,935	205
2000 Series G, 4.65% to 5.35%, due 2004 to 2013	2,410		(215)	2,195	230
2001 Series A, 3.10% to 5.05%, due 2004 to 2034	25,540		(1,375)	24,165	1,425
2001 Series B, 6.64%, due 2004 to 2032	13,235		(190)	13,045	205

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Net Bonds Outstanding June 30, 2005	Issued	Matured/ Called/ Redeemed	Net Bonds Outstanding June 30, 2006	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds 1995 Resolution (continued):					
2001 Series C, variable rate, due 2007 to 2033	$ 48,425			$ 48,425	$ 5
2002 Series A, 2.40% to 4.25%, due 2004 to 2010	25,365		$ (4,450)	20,915	4,605
2002 Series B, variable rate, due 2004 to 2023	16,395		(595)	15,800	610
2002 Series C, 2.90% to 4.95%, due 2004 to 2015	49,700		(4,900)	44,800	9,280
2002 Series D, 5.50%, due 2004 to 2022	1,805		(70)	1,735	75
2002 Series E, 7.00%, due 2004 to 2022	4,025		(125)	3,900	135
2002 Series F, 3.75% to 5.40%, due 2004 to 2016	78,315		(15,080)	63,235	10,870
2002 Series G, variable rate, due 2004 to 2025	5,870		(165)	5,705	175
2003 Series A, 1.40% to 5.05%, due 2004 to 2044	31,030		(530)	30,500	645
2003 Series B, variable rate, due 2004 to 2033	36,950		(2,450)	34,500	1,850
2003 Series C, 1.20% to 4.70%, due 2004 to 2033	3,590		(50)	3,540	60
2003 Series D, variable rate, due 2004 to 2035	13,450		(200)	13,250	200
2004 Series A, 1.80% to 3.75%, due 2006 to 2014	16,595			16,595	1,730
2004 Series B, variable rate, due 2007 to 2046	104,340		(8,830)	95,510	
2004 Series C, variable rate, due 2006 to 2037	13,595		(3,110)	10,485	140
2004 Series D, 1.70% to 5.20%, due 2006 to 2046	30,995		(2,720)	28,275	655
Subtotal 1995 Bond Resolution	868,370		(88,145)	780,225	42,140
Multi-Family Housing Revenue Bonds 2005 Resolution:					
2005 Series A1, 2.20% to 4.95%, due 2005 to 2046	27,565		(285)	27,280	305
2005 Series A2, 4.95%, due 240 to 2046	5,000			5,000	
2005 Series B, variable, due 2005 to 2039	28,000		(250)	27,750	350
2005 Series C, variable, due 2005 to 2045	19,800		(12,400)	7,400	50

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2005	Issued	Matured/ Called/ Redeemed	Bonds Outstanding June 30, 2006	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds 2005 Resolution (continued):					
2005 Series D, 2.00% to 4.70%, due 2005 to 2030	$ 47,355		$ (12,695)	$ 34,660	$ 1,210
2005 Series E, variable, due 2005 to 2029	63,950		(7,100)	56,850	2,300
2005 Series F, variable, due 2005 to 2040	–	$ 25,840	(2,095)	23,745	1,265
2005 Series G, variable, due 2007 to 2047	–	13,620		13,620	40
2006 Series A, variable, due 2006 to 2028	–	24,790		24,790	590
2006 Series B, variable, due 2006 to 2028	–	11,475		11,475	800
Subtotal 2005 Bond Resolution	191,670	75,725	(34,825)	232,570	6,910
Total Multi-Family Bonds Program	1,256,010	75,725	(132,005)	1,199,730	56,205
Net premium (discount) on bonds payable	(256)			(245)	
Deferred bond refunding costs	(11,153)			(10,537)	
Total Multi-Family Bonds Payable (net)	1,244,601			1,188,948	
Total Bonds Payable	$2,159,121	$193,630	$(309,655)	$2,045,712	$85,505

The net proceeds of the aforementioned bonds and obligations were used to make qualified mortgage loans, purchase eligible residential mortgage and home improvement loans and/or establish debt service reserve accounts.

During Fiscal Year 2006, the Agency issued $120,000 Single Family Housing Revenue Bonds which will be used to originate new single family mortgage loans. The Agency also issued $75,725 Multi-Family Housing Revenue Bonds, of which $39,460 was used to finance mortgage loan funds committed to Multi-Family Housing Sponsors, and of which $36,265 was used to refund prior bonds.

As of June 30, 2006 and 2005, there was $46,443 and $153,819, respectively, of undisbursed proceeds from the sale of bonds and obligations. Such funds represent initial mortgage loan funds committed to Multi-Family Housing sponsors authorized under various resolutions.

10. Bonds and Obligations (continued)

Future Principal and Interest Requirements

The approximate principal and interest payments required on outstanding bonds and obligations over the next five years and thereafter are as follows:

	Fixed and Unhedged Variable Rate		Hedged Variable Rate				Total Interest
Agency Component	**Principal**	**Interest**	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Principal**	**Rate Swaps, Net**
Single Family							
2007	$ 27,570	$ 25,050	$ 1,730	$ 14,685	$ 277	$ 29,300	$ 40,012
2008	28,910	23,780	3,710	14,405	603	32,620	38,788
2009	30,400	22,391	4,900	14,697	280	35,300	37,368
2010	28,265	20,877	5,875	14,024	615	34,140	35,516
2011	32,255	19,468	6,780	14,121	412	39,035	34,001
2012-2016	85,895	79,855	41,845	65,592	2,306	127,740	147,753
2017-2021	115,095	53,726	76,620	53,491	2,388	191,715	109,605
2022-2026	72,015	28,685	91,715	36,516	2,173	163,730	67,374
2027-2031	47,085	13,278	76,690	19,294	1,528	123,775	34,100
2032-2036	13,570	2,491	47,930	6,511	499	61,500	9,501
2037-2041	6,370	159	9,485	532		15,855	691
	$487,430	$289,760	$367,280	$253,868	$ 11,081	854,710	$554,709
Add Unamortized Premium						2,255	
Less Unamortized Deferral on Refunding						(201)	
						$ 856,764	
Multi-Family							
2007	$ 48,440	$ 45,085	$ 7,765	$ 14,586	$ 1,462	$ 56,205	$ 61,133
2008	50,440	43,063	6,990	14,391	1,497	57,430	58,951
2009	48,400	40,763	7,385	14,076	1,491	55,785	56,331
2010	47,520	38,429	7,660	13,786	1,504	55,180	53,719
2011	42,275	36,171	8,110	13,482	1,392	50,385	51,044
2012-2016	164,990	150,958	53,855	61,977	7,343	218,845	220,279
2017-2021	133,845	111,557	68,030	49,882	4,871	201,875	166,310
2022-2026	126,635	70,982	70,645	36,009	4,962	197,280	111,953
2027-2031	95,990	35,320	56,885	22,966	2,105	152,875	60,391
2032-2036	41,580	12,211	39,585	13,362	1,138	81,165	26,711
2037-2041	18,895	4,318	26,110	6,822	428	45,005	11,567
2042-2046	7,175	953	18,805	2,383	276	25,980	3,612
2047-2051	40	1	1,680	72	3	1,720	75
	$826,225	$589,810	$ 373,505	$ 263,794	$ 28,470	$1,199,730	$882,076
Add Unamortized Premium						(245)	
Less Unamortized Deferral on Refunding						(10,537)	
						$1,188,948	

11. Bonds and Obligations Refunding

On March 15, 2006, the Agency issued $36,265 in Multi-Family Revenue Bonds, 2006 Series A and B, to advance refund $36,265 of outstanding 1996 Series A and B bonds. The net proceeds of $36,265 (after payment of issuance costs) were used to purchase repurchase agreements. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 Series A and B bonds. As a result, the 1996 Series A and B bonds are considered to be defeased and the liability for those bonds has been removed from the Agency's Statement of Net Assets. All outstanding 1996 Series A and B bonds were redeemed on May 1, 2006.

The Agency advance refunded the 1996 Series A and B bonds to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of $6,630, or roughly 18.3% of the refunding bonds. At June 30, 2006, there were no defeased bonds outstanding.

12. Conduit Debt Obligations

During the fiscal year ended June 30, 2005, the Agency issued 2004 Series A Capital Fund Program Bonds. These bonds were issued to provide funds to local Housing Authorities to finance on an accelerated basis certain capital renovations and improvements to each Authority's public housing developments. The bonds are payable from and secured primarily by Capital Fund Program moneys, subject to the availability of appropriations to be paid by the United States Department of Housing and Urban Development (HUD) to each Authority. These bonds are special and limited obligations of the Agency. The bonds, which are considered conduit debt obligations by GASB, do not constitute a debt or pledge of the faith and credit of the Agency and accordingly have not been reported in the accompanying financial statements.

At June 30, 2006, Capital Fund Program Bonds outstanding aggregated $78,245.

13. Funds Held in Trust for Mortgagors

Funds held by the Agency for its projects include proceeds from conversion of projects from non-profit to limited-dividend status in the form of development cost and community development escrows and unspent subsidies. These funds are available to absorb initial operating deficits, construction overruns, provide additional amenities to the projects, and for other contingencies.

13. Funds Held in Trust for Mortgagors (continued)

Funds held in trust for mortgagors as of June 30, 2006 and 2005 include the following:

	June 30	
	2006	**2005**
Multi-Family Housing Component	**$ 11,369**	$ 9,204
General Fund:		
Community development escrows	**2,295**	2,961
Development cost escrows	**10,563**	16,418
Other funds held in trust	**235,543**	216,313
Total General Fund	**248,401**	235,692
ABC Corporation	**–**	11
Total	**$259,770**	$244,907

14. Mortgagor Escrow Deposits

The Agency holds, in escrow, monthly deposits from the projects for payments of property and liability insurance, hazard insurance, payments in lieu of taxes, and major repairs and replacements and undisbursed earnings. Mortgagor escrow deposits as of June 30, 2006 and 2005 include the following:

	June 30	
	2006	**2005**
Multi-Family Housing Component	**$ 7,233**	$ 7,468
General Fund:		
Reserve for repairs and replacements	**149,242**	152,685
Tax and insurance escrows	**32,742**	30,384
Total General Fund	**181,984**	183,069
Total	**$189,217**	$190,537

15. Real Estate Held for Redevelopment

The properties were acquired by A Better Camden Corporation ('ABC') as part of an overall redevelopment strategy undertaken in conjunction with municipal and/or nonprofit community development initiatives. ABC negotiated the prices to be paid for privately

15. Real Estate Held for Redevelopment (continued)

owned properties after ordering and analyzing detailed title work and appraisals. Since the owners were not necessarily prepared to sell their properties prior to ABC's contact with them, ABC often paid a premium for the property. In accordance with advice rendered by the Attorney General's office, no more than 20% over appraised value was paid by ABC for each of these properties. In two cases special permission was granted to exceed this percentage ceiling.

As to the disposition of ABC acquired properties, they are usually transferred to municipal redevelopment agencies, municipalities or nonprofit or for profit developers at a nominal cost in conjunction with community redevelopment plans. The expense is recognized in the year of transfer.

16. Net Assets

Restricted Under Bond and Obligation Resolutions

As described in Note 2, monies within each Bond and Obligation Fund are pledged as security for the respective bondholders, and thus are restricted as to their application.

Restricted for Special Need Housing

The Agency received $50,000 from the sale of New Jersey Commission Development Authority Motor Vehicle Surcharge Revenue Bonds to establish as Special Needs Housing Trust and Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs.

Appropriated General Fund Net Assets

Appropriated General Fund net assets are unrestricted net assets that have been designated by the Agency's members for the following purposes at June 30, 2006 and 2005:

	June 30	
	2006	**2005**
ABC Corporation	**$ 926**	$ 1,590
Affordable Rental Housing Subsidy Loan Program	**9,521**	7,051
Agency CIAP	**957**	
Aging Out of Foster Care	**1,300**	1,300
Asbury Park Initiative PILOT	**500**	500
At Home Downtown	**4,747**	6,621
Bond Refunding Proceeds	**6,771**	6,398
Camden Initiative	**1,486**	1,486
Carteret Senior Living	**584**	363
CIAP Loan Program	**2,980**	4,100

16. Net Assets (continued)

	June 30	
	2006	**2005**
City Living	**$ 19,520**	$ 19,520
Community Development Institute - Rutgers	**63**	63
Equity Gap Program	**135**	135
Ex-Offenders Re-Entry Housing Program	**1,000**	1,000
Home Ownership for Permanency Program	**1,599**	3,998
Homeless Management Information System	**100**	100
HOPE	**500**	500
Information Technology	**1,161**	972
Lanning Square West UHORP #229	**79**	79
Life Safety Rehabilitation	**506**	506
MONI HIF	**23,410**	25,607
Multi-Family Rental Investment Program	**20**	420
NJHMFA portion of Undisbursed Mtg. Proceeds	**2,232**	5,320
Non-Bond Multi-Family Program	**6,967**	27,227
Paragon Village # 1316	**132**	132
PLAN Fund	**5,000**	5,000
Policy and Community Initiatives	**271**	82
Portfolio Disposition	**69**	75
Portfolio Reserve Balance	**5,381**	5,711
Preservation Initiatives	**25**	25
Public Outreach Initiatives	**171**	100
Reserve for Loan Losses	**5,700**	5,700
Roebling School Renaissance Zone Fund	**100**	100
Royal Court	**497**	497
Shore Easy	**95**	101
Single Family Counseling	**147**	
Small Rental Project Preservation Loan Program	**19,066**	20,000
Smart Living	**15,000**	15,000
Smart Start	**100**	100
Social Investment Policy	**1,500**	10,000
Spring Street Plaza MM#1	**1,221**	9,615
St. Paul's Lind Homes UHORP #906		95
Strategic Zone Lending Pool	**13,547**	20,288
Transitional Housing Loans	**1,006**	895
UHORP HIF	**13,661**	15,313
UHORP Mortgage Commitment	**6,745**	7,354
Urban Statewide Acquisition-NJUSA	**8,131**	8,703
West End Housing Development UHORP #501	**75**	75
Work Force Initiative	**3,000**	3,000
	$188,104	$242,817

16. Net Assets (continued)

Changes in net assets are summarized as follows:

	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total
Net assets at June 30, 2004	**$14,733**	$228,659	$491,987	$735,379
Income			9,678	9,678
Change in accounting		(2,569)		(2,569)
Acquisition of capital assets	**1,002**		(1,002)	–
Transfer	**(963)**	12,786	(11,823)	–
Depreciation on capital assets	**(1,882)**		1,882	–
Net assets at June 30, 2005	**12,890**	238,876	490,722	742,488
Income			73,001	73,001
Acquisition of capital assets	**3,480**		(3,480)	–
Transfer	**(150)**	69,096	(68,946)	–
Depreciation on capital assets	**(2,017)**		2,017	–
Net assets at June 30, 2006	**$14,203**	$307,972	$493,314	$815,489

17. Pension Plan

The Agency contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System, which is administered by the New Jersey Division of Pensions and Benefits. This plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B. The plan has a Board of Trustees that is primarily responsible for its administration.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System are required to contribute 5% of their annual covered salary. N.J.S.A. 43:15A-24 authorizes the reduction in member rates based on the existence of surplus pension assets in the retirement system. The contribution rate for PERS members was 3% for calendar year 2004. Effective January 1, 2005, the member contribution rate returned to the normal rate of 5%. The Agency is billed annually for its normal contribution plus any accrued liability.

17. Pension Plan (continued)

The Agency's contributions to the plan, equal to the required contributions, were as follows:

Public Employees Retirement System

Year	Normal Contribution	Accrued Liability	Total Liability	Funded by State	Paid by Agency
2006	$459	$126	$585	$351	$234 (1)
2005	414	6	420	336	84
2004	300	None	300	300	None

(1) Under the provisions of Chapter 108, P.L. 2003 the Agency's share of the total normal contribution and accrued liability increased 20% in 2005 and 40% in 2006. The phase-in will continue through 2007, 2008 and 2009 with 60%, 80% and 100% of the actuarially calculated amounts due for those years respectively. Significant increases in the amount due each year until the phase-in is completed and the Agency returns to making the full contribution on an annual basis is expected.

Early Retirement Incentive Program

The Agency has approved "Early Retirement Incentive Programs" known as ERI 1 and ERI 3, as, permitted by State legislation for certain members of the Public Employees' Retirement System. These members had to meet certain age and service requirements and had to apply for retirement between certain dates. Three (3) employees participated in ERI 1 and fifteen (15) employees participated in ERI 3. The Agency is assessed annually for the actuarially determined contribution to fund this program. The Agency is obligated to make annual installments with each subsequent year payment increasing by 4% (ERI 1) and 5.95% (ERI 3) every year. Payments for the years ended June 30, 2006, 2005 and 2004 were $97,271, $78,980 and $15,961, respectively.

Installments due by the Agency at June 30, 2006 are as follows:

2007	$ 99,177
2008	103,144
2009	107,269
2010	111,560
2011	116,023
2012-2016	653,550
2017-2021	795,139
2022-2026	771,535
2027-2031	938,692
2032-2034	658,208
	$4,354,297

17. Pension Plan (continued)

The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

18. Post Employment Benefits

The Agency is responsible for the cost of health benefits provided to members of PERS who retired from the Agency with 25 years of service. The Agency paid $420 and $382 in each fiscal year toward benefits for forty-one and thirty-nine eligible retired members in fiscal years 2006 and 2005, respectively.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes guidance for the financial reporting of other postemployment benefits ("OPEB") cost over a period that approximates employees' years of service and provides information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. This Statement is effective for financial statements for periods beginning after December 15, 2006. The Agency is currently evaluating the impact of implementing GASB No. 45.

19. Deferred Compensation Account

The Agency offers its employees a choice of two Deferred Compensation Plans in accordance with Internal Revenue Code Section 457. The Plans, available to all full time employees at their option, permit employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Agency or its creditors.

20. Reserve for Interest Rebate

The Tax Reform Act of 1986 placed restrictions on the investments of the proceeds of certain tax-exempt bonds issued after December 31, 1986. Specifically, investment earnings which are above arbitrage bond yield are required to be rebated to the United States Treasury Department within sixty days of the end of the fifth bond year. A bond year is defined as ending on the anniversary date of the bond settlement.

The Agency has various issues of bonds outstanding (see Note 9), which also had various settlement dates. Rebate calculations on these bonds are required to be made at least once every five years. However, the Agency prepares annual rebate calculations for purposes of determining any contingent liability for rebate.

The Agency has elected to establish a reserve account in the amount of $101 and $469 for the fiscal years ended June 30, 2006 and 2005, respectively for the Multi-Family Bond Resolution Fund and $1,114 and $1,097 for the fiscal years ended June 30, 2006 and 2005, respectively for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

21. Derivative Instruments

Objectives of the Swaps and Caps

The agency has several variable rate bond series currently outstanding, in order to protect against the potential of rising interest rates, the Agency entered into various pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the Agency would have paid to issue fixed-rate debt. The notional principal of the swaps in some cases initially increase as the borrowed funds are anticipated to be loaned out. The Agency also entered into various interest rate cap agreements that were anticipated to effectively limit the Agency's interest rate exposure during the period before the swaps fully hedge the exposure. All derivatives are valued at their fair value.

Terms, Fair Values, and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps and caps as of June 30, 2006, are summarized in the table below. The caps and the swaps are utilized together to hedge the risk from the associated variable rate debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category. The Agency pays a fixed interest rate on the notional amount that represents the principal amount of the related bonds. The Agency receives either 1-Month LIBOR times the notional amount for the taxable borrowings, or a percentage of 1-Month LIBOR plus a fixed spread or the

21. Derivative Instruments (continued)

Bond Market Association ("BMA") Index times the notional amount for the tax-exempt borrowings from the counterparty, as listed below. Where possible, only the net difference will be exchanged with the counterparty and the Agency continues to pay interest to the certificate-holders at the variable rate provided on the bonds. The purpose of the swap is to mitigate interest rate risk. The Agency will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated.

Single Family Bond Component Swaps

Associated Bond Issue	Bond Original Par Amounts	Maximum Swap Notional Amount	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
SHRB* 2003 D-1	$13,565	$13,565	10/30/2003	10/1/2023	3.919%	67% of 1-Mo LIBOR + 16bp	$ 157	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AA+ / -
SHRB* 2003 D-2	24,015	24,015	10/30/2003	10/1/2034	4.379%	67% of 1-Mo LIBOR + 18bp	370	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AA+ / -
SHRB* 2004 I-1	21,125	21,125	8/5/2004	4/1/2025	4.165%	68.2% of 1-Mo LIBOR + 27bp	368	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
SHRB* 2004 I-3	32,225	32,225	8/5/2004	10/1/2034	4.655%	68.2% of 1-Mo LIBOR + 27bp	507	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
SHRB* 2005 N	38,050	18,785	10/1/2006	10/1/2017	4.055%	68% of 1-Mo LIBOR or BMA + 1bp**	(218)	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
SHRB* 2005 O-1 ****	47,025	47,025	4/1/2006	10/1/2026	4.396%	68% of 1-Mo LIBOR or BMA + 8bp***	53	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
SHRB* 2005 O-2 *****	32,925	32,925	4/1/2006	4/1/2031	4.332%	68% of 1-Mo LIBOR or BMA + 8bp***	106	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
SHRB* 2005 P/Q/R	120,000	30,000	4/1/2007	4/1/2038	3.927%	68% of 1-Mo LIBOR + 18bp	–	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AA+ / -

* Single-Family Housing Revenue Bonds

** If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be BMA + 1bp.

*** If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be BMA + 8bp.

**** This trade combines 3 prior trades which total $47,025,000 and had swap effective dates of 10/1/05, 1/1/06, and 4/1/06

***** This trade combines 3 prior trades which total $32,925,000 and had swap effective dates of 10/1/05, 1/1/06, and 4/1/06

21. Derivative Instruments (continued)

Multi-Family Bond Component Swaps

Associated Bond Issue	Bond Original Par Amounts	Maximum Swap Notional Amount	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
MHRB* 2001-C	$ 68,550	$47,970	11/1/2002	5/1/2029	5.0388%	USD-BMA Municipal Swap Index	$(3,210)	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / A+ / AA-
MHRB 2002-G	6,240	6,240	10/2/2002	5/1/2025	6.2450%	1-Mo LIBOR	(248)	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / A+ / AA-
MHRB 2003-B	51,500	34,850	11/1/2003	5/1/2033	4.3160%	USD-BMA Municipal Swap Index	(15)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AA+ / -
MHRB 2003-D	23,900	13,450	5/8/2003	5/1/2035	5.2180%	1-Mo LIBOR	(109)	Bank of America, N.A.	Aa1 / AA / AA-
MHRB 2004-B	110,240	90,590	5/1/2005	11/1/2046	3.9900%	67% of 1-Mo LIBOR + 18bp	(420)	Bank of America, N.A.	Aa1 / AA / AA-
MHRB 2004-C	31,045	10,220	5/1/2004	11/1/2037	5.2700%	1-Mo LIBOR	611	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
MRB** 2005-B	28,000	13,700	5/1/2006	11/1/2039	4.3700%	USD-BMA Municipal Swap Index	215	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
MRB 2005-C	19,800	4,300	11/1/2005	5/1/2036	5.3300%	1-Mo LIBOR	247	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
MRB 2005-E	63,950	47,700	2/10/2005	11/1/2029	3.3980%	67% of 1-Mo LIBOR + 18bp	1,733	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2005-F	25,840	13,460	8/10/2005	5/1/2040	4.2190%	USD-BMA Municipal Swap Index + 5bp	406	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2005-G	13,620	5,020	11/1/2006	11/1/2047	5.4830%	1-Mo LIBOR	344	Bank of America, N.A.	Aa1 / AA / AA-
MRB 2006-A	24,790	24,790	3/15/2006	5/1/2028	3.7150%	63% of 1-Mo LIBOR + 20.5 bp	311	Royal Bank of Canada, New York	Aa2 / AA / AA-
MRB 2006-B	11,475	11,475	3/15/2006	5/1/2028	5.4220%	1-Mo LIBOR	(5)	Bank of America, N.A.	Aa1 / AA / AA-
MRB 2007-A	TBA	26,095	11/1/2007	5/1/2034	4.0100%	63% of 1-Mo LIBOR + 20.5 bp	(89)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2007-C	TBA	10,275	11/1/2007	5/1/2029	5.9100%	1-Mo LIBOR	(13)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

* Multi-Family Housing Revenue Bonds
** Multi-Family Revenue Bonds

21. Derivative Instruments (continued)

Multi-Family Rate Lock Swaps/Swaptions

Associated Bond Issue	Maximum Swap Notional Amount	Swap/ Swaption Trade Date	Swap Effective Date	Swap Expiration Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/ Fitch)
HMFA 1385 - Elton Corner	10,740	4/5/2005	11/1/2006		11/1/2041	4.998%	USD-BMA Municipal Swap Index + 33 bp	(121)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
HMFA# 1429 - Chuck Costello Ind. Living	2,065	10/18/2005	5/1/2007	4/18/2007	5/1/2037	5.557%	1-Mo LIBOR	64	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
HMFA# 1437 - Trenton Prospect House	1,550	2/1/2006	8/1/2008		11/1/2038	5.566%	1-Mo LIBOR + 25bp	65	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

21. Derivative Instruments (continued)

The Agency has also entered into interest rate cap agreements to protect against rising interest rates in the initial years of the bonds listed on the chart below. The swaps and the caps work together to hedge the interest rate risk associated with the variable rate bonds. The caps' notional amounts decrease in size as the swaps' notional amounts increase, and finally the caps mature, as the size of the swaps is sufficient to hedge the bonds. Under the cap agreement, the counterparty will make payments to the Agency if interest rates based on the LIBOR Index or BMA Index exceed the strike rate, as listed below. In exchange, the Agency paid an upfront premium to the counterparty upon entering the agreement. The terms of the caps are as follows:

Multi-Family Bond Component Caps

Associated Bond Issue	Bond Original Par Amounts	Maximum Cap Notional Amount	Cap Effective Date	Cap Maturity Date	Strike Rate	Variable Rate Index	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
MHRB 2004-B due 11/1/2034	$19,650	$19,650	3/23/2004	5/1/2007	4.5000%	USD-BMA Municipal Swap Index	$ –	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / A+ / AA-
MRB** 2005-B	28,000	27,714	2/10/2005	5/1/2008	4.5000%	USD-BMA Municipal Swap Index	8	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
MRB 2005-C	19,800	19,600	2/10/2005	11/1/2006	5.0000%	1-Mo LIBOR	6	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2005-E	63,950	16,250	2/10/2005	11/1/2007	4.5000%	USD-BMA Municipal Swap Index	4	Bear Stearns Financial Products, Inc.	Aaa / AAA / AAA
MRB 2005-F	25,840	13,700	8/10/2005	5/1/2009	4.5000%	USD-BMA Municipal Swap Index	13	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2005-G	13,620	13,620	8/10/2005	11/1/2006	5.0000%	1-Mo LIBOR	27	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2006-D	63,635	63,635	8/3/2006	5/1/2009	5.5000%	USD-BMA Municipal Swap Index	–	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

21. Derivative Instruments (continued)

Credit Risk

As of June 30, 2006, the Agency was exposed to credit risk on the outstanding swaps and cap which had positive fair values.

The swap agreements contain varying collateral agreements with the counterparties. Each swap counterparty is required to post collateral to a third party when their credit rating, as determined by the specified nationally recognized credit rating agencies, falls below a trigger level as defined in the swap agreements. This protects the agency by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Although the Agency executes swap transactions with various counterparties, approximately 30 percent of the notional amount of swaps outstanding is held with a single counterparty. That counterparty is rated Aaa/AAA/AAA. All other swaps are held with separate counterparties. Those counterparties are rated Aa3/A+/AA- or better.

Basis Risk

Basis risk exists to the extent the Agency's variable-rate bond coupon payments do not exactly equal the index on the swap. The Agency's tax-exempt bonds are hedged with tax-exempt BMA based swaps and percentage of LIBOR swaps. The Agency's taxable bonds are hedged with taxable, LIBOR-based swaps. In this way, basis risk should be minimized.

Interest Rate Risk

The Agency's interest rate swaps serve to guard against a rise in variable interest rates associated with its outstanding variable rate bonds. The Agency's interest rate caps serve to eliminate interest rate risk above the strike rate on each contract. In addition, certain bond proceeds are invested in variable rate Guaranteed Investment Contracts ("GICs") in order to further mitigate interest rate risk on the variable rate bonds.

21. Derivative Instruments (continued)

Termination Risk

The Agency retains the right to terminate any swap agreement at the market value prior to maturity, and the Agency was granted the right to cancel certain agreements, in whole or in part, at Par. The Agency has termination risk under the contract particularly if an Additional Termination Event (ATE) as defined in the swap documents were to occur. An ATE occurs if either the credit rating of the bonds associated with a specific swap, or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. The Agency has purchased termination payment insurance on certain swap contracts, which acts as a buffer against a portion of potential termination payments if an ATE was to occur. As long as the swap insurer maintains at least a minimal rating as defined in the swap documents, the insurance policy will allow the agency to avoid termination due to a decline in the credit rating of the agency bonds. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

22. Commitments and Contingencies

On March 15, 1994, the Agency entered into an Advances, Collateral Pledge and Security Agreement (the "Agreement") with the Federal Home Loan Bank of New York. As of June 30, 2006, the available line of credit was $11,390 of which $2,922 was outstanding as a fixed rate amortizing advance. Repayments on the advance are amortized over a 10-year period, payable monthly at a rate of 4.88% with a final maturity of January 2016.

The Agency is a defendant in various legal actions arising in the ordinary course of business. The Agency is represented in these actions by the Attorney General of the State of New Jersey, acting as general counsel to the Agency, and by counsel to the Agency's various insurers. In the opinion of management and legal counsel, the ultimate disposition of these legal actions will not have a material adverse effect on the Agency's financial position.

23. Change in Accounting Estimate

Prior to July 1, 2004, bond issuance costs and discount / premium on bonds were charged to operating expenses based on a straight line amortization method. Effective July 1, 2004, the Agency changed its accounting for amortization from the straight-line method to the interest to maturity method. This change to the interest to maturity method for amortization was made in recognition of a closer matching of the amortization to the economic benefit received by the Agency. Because the effect of this change in accounting principle was inseparable from the effect of the change in accounting estimate, the change was accounted for as a

23. Change in Accounting Estimate (continued)

change in estimate. As a result, the Agency recorded a charge to operations of $2,659 in the fiscal year ended June 30, 2005.

24. Subsequent Events

On August 3, 2006 the Agency closed on $74,250 in Multi-Family Revenue Bonds consisting of Series C, Fixed Rate (AMT), Series D, Variable Rate (AMT) and Series E, Fixed Rate (Non-AMT). This bond issue will finance 1,595 rental units.

On September 7, 2006 the Agency closed on $8,350 in Variable Rate Demand Multifamily Housing Revenue Bonds (Meadow Brook Apartments Project) consisting of 2006 Series A Bonds. This bond issue will finance 96 rental units.

Supplemental Schedules

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Single Family Housing Program
(in thousands)

As of June 30, 2006 and 2005

	2006			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**2005 Total**
Assets				
Current assets:				
Cash and cash equivalents	**$127,522**	**$ 47,018**	**$ 174,540**	$ 130,711
Investments			**–**	203,250
Accrued interest receivable on investments	**613**	**1,731**	**2,344**	2,314
Mortgage Loans receivable – net	**10,879**	**5,696**	**16,575**	16,901
Due from loan servicers and insurers	**1,011**	**853**	**1,864**	2,806
Other assets	**83**	**–**	**83**	96
Total current assets	**140,108**	**55,298**	**195,406**	356,078
Non–current assets:				
Investments	**50,470**	**144,889**	**195,359**	74,513
Mortgage loans receivable – net	**332,862**	**309,800**	**642,662**	653,785
Debt service arrears receivable – net	**1,658**	**1,070**	**2,728**	2,224
Supplemental mortgages and other loans – net	**1,705**	**4,109**	**5,814**	3,863
Deferred charges – bond issuance costs – net	**1,503**	**2,811**	**4,314**	4,239
Real estate owned	**224**	**45**	**269**	969
Total non–current assets	**388,422**	**462,724**	**851,146**	739,593
Total assets	**$528,530**	**$518,022**	**$1,046,552**	$1,095,671

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Single Family Housing Program (continued)
(in thousands)

As of June 30, 2006 and 2005

	2006			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**2005 Total**
Liabilities				
Current liabilities:				
Bonds and obligations – net	**$ 22,595**	**$ 6,705**	**$ 29,300**	$ 116,285
Accrued interest payable on bonds and obligations	**5,328**	**4,407**	**9,735**	8,636
Other current liabilities	**18**	**47**	**65**	–
Interfund allocation	**395**	**988**	**1,383**	1,237
Total current liabilities	**28,336**	**12,147**	**40,483**	126,158
Non–current liabilities:				
Bonds and obligations – net	**372,570**	**454,894**	**827,464**	798,235
Other non–current liabilities	**139**	**1,272**	**1,411**	1,336
Due to other funds	**3,272**		**3,272**	3,492
Total non–current liabilities	**375,981**	**456,166**	**832,147**	803,063
Total liabilities	**404,317**	**468,313**	**872,630**	929,221
Net assets:				
Restricted under Bond and Obligation Resolutions	**124,213**	**49,709**	**173,922**	166,450
Total net assets	**$ 124,213**	**$ 49,709**	**$ 173,922**	$ 166,450

New Jersey Housing and Mortgage Finance Agency

Schedule of Revenues, Expenses and Changes in Fund Net Assets – Single Family Housing Program
(in thousands)

Year ended June 30, 2006 and 2005

	2006			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**2005 Total**
Operating revenues				
Interest income on mortgage loans	**$ 23,567**	**$ 14,164**	**$ 37,731**	$ 42,541
Total operating revenues	**23,567**	**14,164**	**37,731**	42,541
Operating expenses				
Interest and amortization of bond premiums and discounts	**22,685**	**18,999**	**41,684**	41,125
Insurance costs	**356**	**73**	**429**	633
Servicing fees and other	**1,460**	**1,034**	**2,494**	2,705
Salaries and related benefits	**561**	**1,416**	**1,977**	1,440
Professional services and financing costs	**78**	**180**	**258**	142
General and administrative expenses	**201**	**424**	**625**	683
Loss on sale of real estate owned	**232**	**6**	**238**	1,062
Other expenses	**–**	**93**	**93**	–
Provision for loan losses	**(1,587)**	**276**	**(1,311)**	754
Total operating expenses	**23,986**	**22,501**	**46,487**	48,544
Net operating income (loss)	**(419)**	**(8,337)**	**(8,756)**	(6,003)
Nonoperating revenues/(expenses)				
Investment income	**8,224**	**8,255**	**16,479**	10,518
Loss on early extinguishment of old debt	**(137)**	**(115)**	**(252)**	(1,150)
Total nonoperating revenues/(expenses)	**8,087**	**8,140**	**16,227**	9,368
Income (Loss) before transfers	**7,668**	**(197)**	**7,471**	3,365
Transfers	**(15,997)**	**15,998**	**1**	(11)
Increase (decrease in net assets	**(8,329)**	**15,801**	**7,472**	3,354
Net assets, beginning of year	**132,542**	**33,908**	**166,450**	164,485
Cumulative effect of change in accounting estimate	**–**	**–**	**–**	(1,389)
Net assets, beginning of year, as adjusted	**132,542**	**33,908**	**166,450**	163,096
Increase (decrease) in net assets, during year	**(8,329)**	**15,801**	**7,472**	3,354
Net assets, end of year	**$ 124,213**	**$ 49,709**	**$ 173,922**	$ 166,450

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Multi-Family Housing Program

(in thousands)

As of June 30, 2006 and 2005

	2006						
	General Housing Loan Bond Funds	**1983-A Highview Terrace**	**1991-I**	**1995**	**2005**	**Total**	**2005 Total**
Assets							
Current assets:							
Cash and cash equivalents	**$ 7,139**	**$ 335**	**$ 2**	**$ 37,847**	**$ 3,878**	**$ 49,201**	$ 79,632
Investments	**19,213**	**–**	**–**	**12,669**	**4,582**	**36,464**	74,714
Accrued interest receivable on investments		**4**	**82**	**774**	**295**	**1,155**	1,240
Mortgage Loans receivable- net	**3,588**	**47**	**2,159**	**30,733**	**10,121**	**46,648**	38,094
Due from loan servicers and insurers	**–**	**–**	**–**	**–**	**–**	**–**	–
Other assets	**226**	**–**	**–**	**871**	**79**	**1,176**	343
Total current assets	**30,166**	**386**	**2,243**	**82,894**	**18,955**	**134,644**	194,023
Non-current assets							
Investments	**696**	**173**	**7,719**	**79,612**	**41,714**	**129,914**	140,574
Escrow deposits	**–**	**–**	**–**	**–**	**–**	**–**	–
Mortgage loans receivable- net	**49,503**	**2,567**	**113,910**	**693,142**	**185,905**	**1,045,027**	1,017,444
Debt service arrears receivable- net	**9**	**–**	**–**	**1,133**	**143**	**1,285**	1,207
Deferred charges- bond issuance costs- net	**–**	**–**	**–**	**5,076**	**2,202**	**7,278**	7,307
Total non-current assets	**50,208**	**2,740**	**121,629**	**778,963**	**229,964**	**1,183,504**	1,166,532
Total assets	**80,374**	**3,126**	**123,872**	**861,857**	**248,919**	**1,318,148**	1,360,555

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets - Multi-Family Housing Program (continued)

(in thousands)

As of June 30, 2006 and 2005

	2006						
	General Housing Loan Bond Funds	1983-A Highview Terrace	1991-I	1995	2005	Total	2005 Total
Liabilities							
Current liabilities:							
Bonds and obligations- net	**$ 4,950**	**$ 45**	**$ 2,160**	**$ 42,140**	**$ 6,910**	**$ 56,205**	$ 47,695
Accrued interest payable on bonds and obligations	**556**	**47**	**1,424**	**6,638**	**1,562**	**10,227**	9,202
Advances from the State of New Jersey for bond and housing assistance						**–**	1,779
Mortgagor escrow deposits	**7,233**					**7,233**	7,468
Interfund allocation	**150**			**2,311**	**542**	**3,003**	2,812
Total current liabilities	**12,889**	**92**	**3,584**	**51,089**	**9,014**	**76,668**	68,956
Non-current liabilities							
Bonds and obligations- net	**57,010**	**2,690**	**120,080**	**735,098**	**217,865**	**1,132,743**	1,196,906
Minimum escrow requirement	**572**	**26**	**–**	**6,665**	**1,568**	**8,831**	8,861
Funds held in trust for mortgagor	**7,535**	**–**	**–**	**3,834**	**–**	**11,369**	9,204
Other non-current liabilities	**–**	**12**	**–**	**1,064**	**199**	**1,275**	1,653
Due to HUD	**–**	**306**		**–**	**–**	**306**	348
Due to other funds	**–**	**–**	**3**	**897**	**–**	**900**	893
Total non-current liabilities	**65,117**	**3,034**	**120,083**	**747,558**	**219,632**	**1,155,424**	1,217,865
Total liabilities	**78,006**	**3,126**	**123,667**	**798,647**	**228,646**	**1,232,092**	1,286,821
Net assets							
Restricted under Bond and Obligation Resolutions	**2,368**	**–**	**205**	**63,210**	**20,273**	**86,056**	73,734
Total net assets	**$ 2,368**	**$ –**	**$ 205**	**$ 63,210**	**$ 20,273**	**$ 86,056**	$ 73,734

New Jersey Housing and Mortgage Finance Agency

Schedule of Revenues, Expenses
and Changes in Fund Net Assets - Multi-Family Housing Program
(in thousands)

Year ended June 30, 2006 and 2005

	2006						
	General Housing Loan Bond Funds	**1983-A Highview Terrace**	**1991-I**	**1995**	**2005**	**Total**	**2005 Total**
Operating revenues							
Interest income on mortgage loans	**$ 3,372**	**$ 274**	**$ 8,191**	**$ 55,752**	**$ 13,639**	**$ 81,228**	$ 82,568
Fees and charges	**745**	**–**	**135**	**5,509**	**1,343**	**7,732**	7,566
Other income-net	**22**	**–**	**–**	**433**	**239**	**694**	49
Total operating revenues	**4,139**	**274**	**8,326**	**61,694**	**15,221**	**89,654**	90,183
Operating expenses							
Interest and amortization of bond premiums and discounts	**3,521**	**285**	**8,630**	**45,385**	**9,650**	**67,471**	64,020
Insurance costs	**–**	**–**	**–**	**802**	**168**	**970**	1,187
Servicing fees and other	**62**	**1**	**270**	**56**	**9**	**398**	291
Salaries and related benefits	**–**	**–**	**–**	**3,383**	**618**	**4,001**	3,488
Professional services and financing costs	**–**	**–**	**–**	**415**	**83**	**498**	326
General and administrative expenses	**–**	**–**	**7**	**954**	**190**	**1,151**	1,618
Provision for loan losses	**4,129**	**–**	**–**	**3,948**	**2,022**	**10,099**	20,863
Total operating expenses	**7,712**	**286**	**8,907**	**54,943**	**12,740**	**84,588**	91,793
Net operating Income (loss)	**(3,573)**	**(12)**	**(581)**	**6,751**	**2,481**	**5,066**	(1,610)
Nonoperating revenues/(expenses)							
Investment income	**169**	**90**	**586**	**5,892**	**2,381**	**9,118**	5,026
Loss on early extinguishment of old debt	**–**	**–**	**–**	**(95)**	**(190)**	**(285)**	(201)
Total nonoperating revenues/(expenses)	**169**	**90**	**586**	**5,797**	**2,191**	**8,833**	4,825
Income (loss) before transfers	**(3,404)**	**78**	**5**	**12,548**	**4,672**	**13,899**	3,215
Transfers	**–**	**–**	**–**	**158**	**(1,735)**	**(1,577)**	(1,270)
Increase (decrease) in net assets	**(3,404)**	**78**	**5**	**12,706**	**2,937**	**12,322**	1,945
Net assets, beginning of year	**5,772**	**(78)**	**200**	**50,504**	**17,336**	**73,734**	63,676
Increase (decrease) in net assets, during year	**(3,404)**	**78**	**5**	**12,706**	**2,937**	**12,322**	1,945
Net assets, end of year	**$ 2,368**	**$ –**	**$ 205**	**$ 63,210**	**$ 20,273**	**$ 86,056**	$ 65,621