

**NEW JERSEY HOUSING &
MORTGAGE FINANCE AGENCY**

**REPORT OF AUDIT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2004 AND 2003**



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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 "Statement 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 "Statement 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:

- Finally, 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 during the year ended June 30, 2004 compared to June 30, 2003. 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) 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.

Overall Financial Highlights

- The Agency's total assets decreased by 1.5% due in part to a 5.1% decline in mortgage receivables.
- The Agency's total liabilities decreased by 2.2% due primarily to a 2.2% decline in bonds outstanding.
- Investment income decreased \$15.7 million mainly as a result of the adverse market value impact the rise in short/medium term interest rates had on the fixed income component of the General Fund investment portfolio.
- Total operating expenses decreased by 12.8%. It went from \$196.8 million in 2003 to \$171.6 million in 2004 due in large part to a 17.5% decline in bond interest expense, and a 45.5% reduction in servicing fees.
- The provision for loan losses declined by 5.9%.
- Total non-operating expenses decreased by 90.8% during the fiscal year.
- Total net assets increased by \$8.8 million in fiscal year 2004 compared to a decline of \$1.7 million in fiscal year 2003. This represents an increase of 617.6%.

Single Family Programs

The Agency provides a variety of residential mortgage financing programs. These programs primarily serve low 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. The most recent bond financing occurred in March 2004 whereby the Agency effectuated a \$137.1 million Mortgage Revenue Bond transaction, which warehoused \$137.1 million of bonding authority. Also, during the fiscal year the Agency issued 2003 Series C, D-1, & D-2 new money bonds totaling \$60.0 million. In addition to the Agency funded programs, the Agency administers the Police and Firemen's Retirement System Mortgage program, which provides new mortgage loans and refinancing loans to active members of the New Jersey Police and Firemen's Retirement Systems Pension Fund (PFRS). The program is funded with the PFRS investment assets. In fiscal year 2004 the Agency originated 803 new Single Family loans as compared to 389 new Single Family loans in FY 2003.

Single-Family Bond SWAP Transactions

In connection with the issuance of the 2003 Series D-1 & D-2 Auction Rate bonds, the Agency has entered into two (2) interest rate swap agreements effective October 30, 2003 with Goldman Sachs Mitsui Marine Derivative Products, L.P. The agreements require that the Agency will pay 3.919% (Series D-1) and 4.379% (Series D-2) semi-annually each April 1, and October 1, to Goldman Sachs Mitsui Marine Derivative Products, L.P. based on initial notional amounts of \$13.6 million and \$24.0 million, respectively. The swap notional amounts will amortize periodically and are expected to closely correlate with the outstanding principal amount of the 2003 Series D-1 & D-2 Bonds. In addition, the Agency has the right to early terminate these agreements at Par, in whole or in part, each April 1 or October 1 commencing on October 1, 2013 (Series D-1) and October 1, 2008 (Series D-2). Goldman Sachs Mitsui Marine Derivative Products, L.P. will pay interest to the Agency every 35 days based on 67% of the One-month LIBOR rate plus .16% (Series D-1) and plus .18% (Series D-2), which is expected to closely correlate with the Agency's interest cost on the 2003 Series D-1 & D-2 Bonds.

Multi-Family Programs

There are several categories of Mortgage Loans financed by the NJHMFA. These are Section 8 Mortgage Loans, Section 236, FHA-Insured Mortgage Loans, and Un-enhanced Mortgage Loans. Below is a brief description of each loan program.

Section 8 Mortgage Loans provide for the payment by HUD of a federal housing subsidy for the benefit of low-income families (generally defined as families whose annual income does not exceed 80% of the median income for the area as determined by HUD) and very low-income families (generally defined as families whose annual income does not exceed 50% of the median income for the area as determined by HUD). The amount of subsidy payable to each development is the applicable Contract Rent less any payment made by the tenant. The tenant payment is generally equal to 30% of family income, with a minimum payment of \$25. The specifics for each development's subsidy are established in each respective Housing Assistance Payment (HAP) Contract. The majority of developments financed with Section 8 Mortgage Loans have HAP contracts which are coterminous with the mortgage term. The Section 8 subsidy funds are paid to the operating account of each development, through the NJHMFA, after collection of the debt service and escrow account deposits.

Section 236 Mortgage Loans provide for the payment by HUD of an interest reduction subsidy for the benefit of the NJHMFA. The amount of subsidy payable is the difference between the applicable interest rate on the loan and a 1% interest rate on the same loan amount. The amount of subsidy determined for each development is specified in the Interest Reduction Contract.

The New Jersey Urban Multi-Family Production program ("JUMPP") Loans provide long term, low interest operating expenses/rent subsidy loans to developers who build or rehabilitate rental housing projects that dedicate a portion of the units to low income housing. JUMPP is the primary State subsidy program. The program is based on the premise that subsidies are provided during the early years of operation to offset projected operating deficits but that the housing projects at some point will no longer need the subsidies if increases in project income are equal to or exceed increases to project expenses.

FHA-Insured Mortgage Loans are the subject of federal mortgage insurance provided by FHA under the National Housing Act of 1934 (the National Housing Act) or pursuant to Section 542 of the Housing and Community Development Act of 1992(the 1992 Act). FHA-Insured Mortgage Loans under the National Housing Act are generally insured to the extent of 99% of the amount of the defaulted principal balance thereof, after adjustment for certain expenses and for deposits or assets held by the mortgagee for the benefit of the development. FHA-Insured Mortgage Loans under the 1992 Act are covered by a risk-sharing agreement between the NJHMFA and FHA whereby FHA has agreed to provide FHA Insurance on the loans and the NJHMFA has agreed to reimburse FHA for 25% of any actual loss.

Un-enhanced Mortgage Loans are mortgage loans which are secured by a first lien on the property but are not the subject of a HAP Contract, Interest Reduction Contract or any other subsidy, insurance, or guarantee from the Federal or State Government.

As of June 30, 2004, the Multi-Family portfolio consisted of 212 developments, located in 20 of the 21 counties in New Jersey. Of these, 79 are solely Section 8 subsidized, 39 are solely Section 236 subsidized, 2 are Section 8 and Section 236 subsidized, 3 are JUMPP subsidized, and 89 are Un-enhanced. In addition, of these 212 developments, 20 have FHA Risk Share Insurance enhancing the NJHMFA mortgage.

In fiscal year 2004 the Agency issued 2004 Series A, B, & C new money bonds totaling \$157.9 million to finance 17 new developments that contain 1,963 housing units of which 1,707 are set aside for low/moderate income households. Details on these projects are as follows:

Project Name	Total Units	Affordable Units	Mortgage Amount (in Thousands)	Bonds Issued (in Thousands)
Salem Historic Homes, Phase II	41	41	\$216	\$216
Willow Point	100	100	2,900	2,900
Paramus Affordable Housing	46	46	4,067	4,067
Heritage Village at Lambertville	87	87	6,401	6,401
Maher Manor	100	100	6,880	6,880
Whitlock Mills	330	199	38,366	38,366
Hopewell Village	150	150	8,732	8,732
Villa Esperanza	44	44	1,420	1,420
Brick Church Commons	104	34	11,629	11,629
Portside II	169	169	6,274	6,274
Riverside in New Brunswick	76	76	2,716	496
Bridgeton, Phase I	114	59	726	726
Delsea Village Apt.	100	100	3,196	3,196
Greenwood Townhomes	217	217	24,828	24,828
Colonial-Greenwood East	115	115	13,583	13,583
West Kinney Gardens (a)	133	133	19,000	19,000
West Kinney Gardens (b)	37	37	7,400	7,400

Multi-Family Bond SWAP/CAP Transactions

In order to effectively reduce financing costs to the project owners of developments financed with the 2004 Series A-C bonds, the Agency issued a portion of these bonds as variable rate debt.

In connection with the issuance of the Agency's 2004 Series B PARS Bonds, the Agency has entered into a delayed start amortizing interest rate swap agreement with respect to \$90.6 million principal amount of the 2004 Series B PARS Bonds with Bank of America, N.A. and two (2) interest rate cap agreements with Merrill Lynch Capital Services, Inc.

With respect to the interest rate swap, the Agency will pay interest at the fixed rate of 3.99% semiannually each May 1 and November 1, commencing November 1, 2005 and terminating on November 1, 2046. The swap notional amounts will amortize periodically and are expected to closely correlate with the outstanding principal amount of the 2004 Series B PARS Bonds. In addition, the Agency has the right to early terminate up to one-third (1/3) of the outstanding notional amounts subject to this agreement at Par, each May 1 or November 1 commencing on May 1, 2014. Bank of America, N.A. will pay interest to the Agency every 28 days commencing May 16, 2005 based on 67% of the One-month LIBOR rate plus .18%, which is expected to closely correlate with the Agency's interest cost on the 2004 Series B PARS Bonds. This agreement effectively limits the Agency's interest rate exposure to a maximum of 3.99% on the applicable notional amount related to the 2004 Series B PARS Bonds.

The two (2) interest rate cap agreements are effective on the date of delivery (March 23, 2004) of the 2004 Series B PARS Bonds, and have amortizing notional amounts commencing at \$19.7 million and \$90.6 million. With respect to all or a portion of the 2004 Series B PARS Bonds for which there is no effective fixed interest rate, Merrill Lynch Capital Services, Inc. will make payments to the Agency if interest rates on the BMA Index exceed the "strike" rate of 4.50%. These agreements effectively limit the Agency's interest rate exposure to a maximum of 4.50% on the applicable notional amount related to the 2004 Series B PARS Bonds through the termination dates of May 1, 2007 and May 1, 2006, respectively.

In connection with the issuance of the Agency's 2004 Series C PARS Bonds, the Agency has entered into a delayed start amortizing interest rate swap agreement with respect to \$10.2 million principal amount of the 2004 Series C PARS Bonds with Bear Stearns Financial Products Inc. and an interest rate cap agreement with Bear Stearns Financial Products Inc.

With respect to the interest rate swap, the Agency will pay interest at the fixed rate of 5.27% semiannually each May 1 and November 1, commencing November 1, 2004 and terminating on November 1, 2037. The swap notional amounts will amortize periodically and are expected to closely correlate with the outstanding principal amount of the 2004 Series C PARS Bonds. In addition, the Agency has the right to early terminate this agreement at Par, in whole or in part, each May 1 or November 1 commencing on May 1, 2024. Bear Stearns Financial Products Inc. will pay interest to the Agency on the last day of each month, commencing May 31, 2004 on the same notional amount based upon the One-month LIBOR rate. This agreement effectively limits the Agency's interest rate exposure to a maximum of 5.27% on the applicable notional amount related to the 2004 Series C PARS Bonds.

The interest rate cap agreement was effective on the date of delivery (March 23, 2004) of the 2004 Series C PARS Bonds, and has an amortizing notional amount commencing at \$31.0 million. With respect to the portion of the 2004 Series C PARS Bonds for which there is no effective fixed interest rate, Bear Stearns Financial Products Inc. will make payments to the Agency if interest rates on the One-month LIBOR rate exceed the "strike" rate of 6.50%. This agreement effectively limits the Agency's interest rate exposure to a maximum of 6.50% on the applicable notional amount related to the 2004 Series C PARS Bonds through the termination date of May 1, 2006.

Low-Income Housing Tax Credits

The NJHMFA is also the Housing Credit Agency for the State of New Jersey, and as such administers the allocation of Federal low-income housing tax credits to developers of low-income housing. Due to the tremendous demand for these credits, the NJHMFA encourages suggestions from developers, non-profit groups, municipal officials, general contractors, real estate syndicators, and other participants in the housing field during a public comment period to effectuate a more equitable and optimal allocation plan. In fiscal year 2004 the Agency allocated \$29.1 million in Low Income Housing Tax Credits which financed construction of 2453 new low-income units, compared with fiscal year 2003 allocations totaling \$20.3 million financing 2620 new low-income units.

Contract Administration

In 2000, HUD awarded the Agency a three-year contract, with two optionally renewable years thereafter, to take over Section 8 contract administrative duties for HUD-administered properties in New Jersey. HUD has renewed the contract for years four and five (Year five to commence September 2004), and has verbally indicated its intent to grant a ten-year renewal thereafter upon successful renegotiation of certain contract terms. Under the contract, the Agency is responsible for conducting management and occupancy reviews, adjusting contract rents, processing Housing Assistance Payments to project owners and other monitoring tasks. On December 1, 2000, HMFA received the first installment of 195 contracts representing over 14,629 units throughout the State. An additional 51 contracts have been received representing an additional 6,045 units. As of June 30, 2004 the Agency is administering 246 contracts representing 20,674 units.

General Fund

The Agency's General Fund consists of all assets, (mortgage loans and non-mortgage loan investments) which are not directly pledged to repayment of bonds issued under any of the NJHMFA bond trust indentures. The Net Assets in the General Fund are unrestricted where the assets in the bond funds are restricted since they are pledged to the payment of the outstanding bonds.

The dollar amount of General Fund assets is increased over time by the:

- Retention of earnings on General Fund assets; and
- Transfer and deposit of earnings from the various bond programs

General Fund assets in the form of non-mortgage loan investments readily convertible to cash are first utilized to fund the Agency's operating expenses. Any remaining General Fund liquidity enables the Agency to establish new programs and/or fund primary or secondary mortgages to those developments that qualify for financing but which, due to timing constraints, are not included in an NJHMFA bond issue.

Merrill Lynch Investment Program

The Agency invests a substantial portion of its general fund monies with Merrill Lynch Investment Managers, L.P. ("MLIM"). These monies are invested according to the parameters set forth in the Investment Policy statement as approved by the Agency's Board on August 23, 2001. The Investment Policy statement establishes investment objectives and requirements, such as eligible investments, concentration limits/portfolio diversification, and credit quality considerations. Eligible investments include: US Treasuries, Government and federal agency obligations, commercial paper, repurchase agreements, corporate bonds and notes, bank time deposits and CDs, asset-backed securities, mortgage-backed securities, collateralized mortgage obligations, and money market mutual funds. During the Fiscal Year ended June 30, 2004, this portfolio has earned .69%. From inception to-date (12/5/01 – 6/30/04), the portfolio has earned 3.94% on an annualized basis. As of June 30, 2004, the current yield-to-maturity on the portfolio is 3.07%.

Financial Analysis

The following sections will discuss the Agency's financial results for 2004 compared to 2003. 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 Generally Accepted Accounting Principles. All amounts are in thousands.

Highlights

Assets

The Agency experienced a decrease in total assets of 1.5%. This is due primarily to the continual high rate of single family mortgage prepayments. Due to the relative low interest rate environment, prepaid single family mortgages went from 4088 in FY 2003 to 4546 in FY 2004.

Liabilities

The Agency experienced a decrease in total liabilities of 2.2%. This is primarily due to a decrease in bonds outstanding of 2.2%. The reduction is due to the volume of mortgage prepayments, which resulted in mandatory, optional and extraordinary bond retirements along with the regularly scheduled principal retirements.

Condensed Statement of Net Assets (in Thousands)

	2004	2003
Current and Other Assets	\$3,517,238	\$3,569,657
Capital Assets	<u>14,733</u>	<u>15,194</u>
Total Assets	<u>3,531,971</u>	<u>3,584,851</u>
Current Liabilities	538,528	465,087
Long Term Liabilities	<u>2,258,064</u>	<u>2,393,173</u>
Total Liabilities	<u>2,796,592</u>	<u>2,858,260</u>
Net Assets :		
Invested in Capital Assets, Net of Related Debt	14,733	15,194
Restricted under Bond and Obligation Resolutions	228,659	218,378
Unrestricted :		
Appropriated	247,089	257,859
Unappropriated	<u>244,898</u>	<u>235,160</u>
Total Net Assets	<u>\$ 735,379</u>	<u>\$ 726,591</u>

Revenues and Expenses

Net operating income has decreased by \$14.6 million. Points of interest are as follows:

- Interest income on mortgage loans has decreased by 13.0% due to the lower number of mortgages outstanding and lower average loan rates
- Investment income decreased \$15.7 million mainly as a result of the adverse market value impact the rise in short/medium term interest rates had on the fixed income component of the General Fund investment portfolio
- Interest expense on bonds decreased by 17.5% as a result of previously refunded higher rate debt, the low interest rate environment and a decrease in bonds outstanding
- The provision for loan losses decreased by 5.9% due largely to a reduction in the multi-family loan provision
- The general and administrative expenses increased by 49.3% primarily due to increased MONI program grant disbursements
- Servicing fees expense declined by 45.5% due in large part to the decline in single-family loans outstanding and through the increased use of lower cost single-family loan sub-servicing
- Total non-operating expenses decreased by 90.8% as a result of no capital contributions being made during the fiscal year

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

	2004	2003
Operating Revenues	\$ 182,964	\$ 222,791
Operating Expenses	<u>(171,619)</u>	<u>(196,841)</u>
Operating Revenues Net of Operating Expenses	11,345	25,950
Non-Operating Expenses	<u>(2,557)</u>	<u>(27,661)</u>
Increase (Decrease) in Net Assets	8,788	(1,711)
Total Net Assets Beginning of Year	<u>726,591</u>	<u>728,302</u>
Total Net Assets – End of Year	<u>\$ 735,379</u>	<u>\$ 726,591</u>

Expense Summary (in Thousands)

Operating Expenses:

Interest	\$ 111,183	\$ 134,822
Insurance costs	3,082	2,932
Servicing fees and other	3,331	6,112
Salaries and related benefits	13,834	13,499
Professional services and financing costs	884	4,243
General and administrative expenses	18,770	12,575
Loss on sale of real estate owned	234	1,088
Provision for loan losses	<u>20,301</u>	<u>21,570</u>
Total operating expenses	<u>\$ 171,619</u>	<u>\$ 196,841</u>

Non-Operating Expenses:

Loss on early extinguishment of debt	\$ 1,681	\$ 1,790
Amortization of economic loss on Defeasance of bonds	876	871
Contributed Capital	<u>0</u>	<u>25,000</u>
Total non-operating expenses	<u>\$ 2,557</u>	<u>\$ 27,661</u>

Non-Operating Transfers

During fiscal year 2004, there were \$1.3 million in non-operating transfers between the Multi-Family Bond Fund and the General Fund.

Budgetary Controls

The Agency adopts Operating and Capital Plans that are approved by its Board of Directors prior to the start of each new year. Budgets are a measure of the Agency's financial performance and accountability and are reviewed on a monthly basis throughout the year.

Conclusion

This section of the Annual Report has been provided to give readers a general overview of the Agency's business, financial position, and fiscal accountability for the funds it generates and receives. If you should still have questions about any information in this report you are requested to contact the Finance Department of the New Jersey Housing and Mortgage Finance Agency.

**NEW JERSEY HOUSING &
MORTGAGE FINANCE AGENCY**

**REPORT OF AUDIT OF FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**



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INDEPENDENT AUDITOR'S REPORT

To the Agency Members
New Jersey Housing & Mortgage Finance Agency
Trenton, New Jersey 08650

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the New Jersey Housing & Mortgage Finance Agency (the "Agency"), as of and for the fiscal years ended June 30, 2004 and 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Agency, as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information presented 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 the 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.

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
September 10, 2004

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Net Assets
 (in thousands)
 As of June 30, 2004 and 2003

	2004							2003 Total
	Reporting Entity			Component Units				
	Bond and Obligation Funds	Multi- Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total	
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents (Note 4)	\$ 114,745	\$ 59,894	\$ 334,453	\$ 121	\$ 983		\$ 510,196	\$ 583,399
Investments, substantially restricted (Note 4)	217,065	71,089	54,900				343,054	212,364
Accrued interest receivable on investments	2,322	1,005	2,333				5,660	5,970
Mortgage loans receivable - net (Note 5)	15,970	39,995	3,626				59,591	58,478
Supplemental mortgages and other loans - net (Note 7)		1,200	1,200				1,200	1,551
Fees and other charges receivable	4,186		1,456				1,456	1,792
Due from loan servicers and insurers	163	575	84				4,270	7,218
Other assets			184				922	751
Total current assets	354,451	172,558	398,236	121	983		926,349	871,543
NON-CURRENT ASSETS:								
Investments, substantially restricted (Note 4)	137,143	234,284	221,739				593,166	590,481
Escrow deposits				167			167	216
Mortgage loans receivable - net (Note 5)	693,216	985,042	162,086				1,840,344	1,950,451
Debt service arrears receivable - net (Note 6)	4,255	1,126	117				5,498	6,340
Interest receivable on construction advances and mortgages			1,676				1,676	1,675
Supplemental mortgages and other loans - net (Note 7)			121,257		5		121,262	120,089
Deferred charges - bond issuance costs - net	5,521	8,179					13,700	14,045
Deferred economic loss on defeasance of bonds	1,467	11,518					11,518	12,394
Real estate owned			320				1,787	520
Real estate held for redevelopment					1,085		1,085	1,122
Capital assets - net (Note 8)			12,449				14,733	15,194
Other non-current assets			686	2,284			686	781
Due from other funds			7,483					
Total non-current assets	841,602	1,240,149	527,813	2,451	1,090		2,605,622	2,713,308
TOTAL ASSETS	1,196,053	1,412,707	926,049	2,572	2,073		3,531,971	3,584,851

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Net Assets
 (in thousands)
 As of June 30, 2004 and 2003

	2004						
	Reporting Entity			Component Units			
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
LIABILITIES							
CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	\$ 243,960	\$ 46,150					\$ 290,110
Accrued interest payable on bonds and obligations	10,295	9,697					19,992
Subsidy payments received in advance			\$ 12,093				12,093
Advances from the State of New Jersey for bond and housing assistance		1,779	22,050	\$ 193	\$ 986		23,829
Other current liabilities		7,584	183,741				191,325
Mortgagor escrow deposits (Note 11)							2,130
Total current liabilities	254,255	65,210	217,884	193	986	-	538,528
NON-CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	771,266	1,258,203					2,029,469
Minimum escrow requirement		8,923	763				9,686
Funds held in trust for mortgagors (Note 10)		9,195	190,115				199,310
Deferred revenues			3,519				3,519
Other non-current liabilities	1,622	2,149	9,332	2,629			15,732
Due to HUD		348					348
Due to other funds	4,425	3,058				\$ (7,489)	-
Total non-current liabilities	777,313	1,281,876	203,729	2,629		(7,489)	2,258,064
TOTAL LIABILITIES	1,031,568	1,347,086	421,613	2,822	986	(7,489)	2,796,592
NET ASSETS (Note 13):							
Invested in capital assets, net of related debt			12,449	2,284	-		14,733
Restricted under bond and obligation resolutions	164,485	65,621		(2,534)	1,087		228,659
Unrestricted:							
Appropriated			247,089				247,089
Unappropriated			244,898				244,898
TOTAL NET ASSETS (DEFICIT)	\$ 164,485	\$ 65,621	\$ 504,436	\$ (250)	\$ 1,087	\$ -	\$ 726,591

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Net Assets
 (in thousands)
 As of June 30, 2004 and 2003

	2003						
	Reporting Entity			Component Units			
	Single-Family Mortgage Component	Bond and Obligation Funds	Multi-Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents (Note 4)	\$ 136,499	\$ 79,986	\$ 364,849	\$ 119	\$ 1,946	\$ 583,399	
Investments, substantially restricted (Note 4)	131,095	30,541	50,748			212,384	
Accrued interest receivable on investments	2,427	1,050	2,493			5,970	
Mortgage loans receivable - net (Note 5)	19,388	35,836	3,254			58,478	
Supplemental mortgages and other loans - net (Note 7)		1,551	1,792			1,551	
Fees and other charges receivable	7,181	37	1,792			1,792	
Due from loan servicers and insurers	212	250	289			7,218	
Other assets						751	
Total current assets	296,802	147,663	425,013	119	1,946	871,543	
NON-CURRENT ASSETS:							
Investments, substantially restricted (Note 4)	164,496	177,483	248,502		45	590,481	
Escrow deposits	839,514	996,138	114,799	171		1,950,451	
Mortgage loans receivable - net (Note 5)	5,173	1,023	144			6,340	
Debt service arrears receivable - net (Note 6)			1,675			1,675	
Interest receivable on construction advances and mortgages			121,859			120,089	
Supplemental mortgages and other loans - net (Note 7)	6,755	7,290				14,045	
Deferred charges - bond issuance costs - net		12,394				12,394	
Deferred economic loss on defeasance of bonds			234			520	
Real estate owned	286					1,122	
Real estate held for redevelopment					1,122		
Capital assets - net (Note 8)			12,291	2,903		15,194	
Other non-current assets			781			781	
Due from other funds			9,370			(9,370)	
Total non-current assets	1,016,224	1,194,328	509,655	3,074	1,167	2,713,308	
TOTAL ASSETS	1,313,026	1,341,991	934,668	3,193	3,113	3,584,851	

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Net Assets
 (in thousands)
 As of June 30, 2004 and 2003

	2003						
	Reporting Entity			Component Units			
	Bond and Obligation Funds	Multi- Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
LIABILITIES							
CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	\$ 158,290	\$ 44,693					\$ 202,983
Accrued interest payable on bonds and obligations	13,495	10,072					23,567
Subsidy payments received in advance			\$ 17,168				17,168
Advances from the State of New Jersey for bond and housing assistance		1,779	22,296				24,075
Other current liabilities		7,494	187,670	\$ 186	\$ 1,944		2,130
Mortgagor escrow deposits (Note 11)							195,164
Total current liabilities	171,785	64,038	227,134	186	1,944	-	465,087
NON-CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	976,950	1,190,946					2,167,896
Minimum escrow requirement		8,653	720				9,373
Funds held in trust for mortgagors (Note 10)		9,369	191,880				201,249
Deferred revenues			2,977				2,977
Other non-current liabilities	2,444	1,289	6,647	947			11,327
Due to HUD		351					351
Due to other funds	5,701	3,669		1,770		\$ (11,140)	
Total non-current liabilities	985,095	1,214,277	202,224	2,717		(11,140)	2,393,173
TOTAL LIABILITIES	1,156,880	1,278,315	429,358	2,903	1,944	(11,140)	2,858,260
NET ASSETS (Note 13):							
Invested in capital assets, net of related debt	156,146	63,676	12,291	2,903			15,194
Restricted under bond and obligation resolutions				(2,613)	1,169		218,378
Unrestricted:							
Appropriated			257,859				257,859
Unappropriated			235,160				235,160
TOTAL NET ASSETS	\$ 156,146	\$ 63,676	\$ 505,310	\$ 290	\$ 1,169	\$ -	\$ 726,591

The accompanying Notes to Financial Statements are an integral part of this statement.

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Revenues, Expenses, and Changes in Net Assets
 (in thousands)
 For Fiscal Years Ended June 30, 2004 and 2003

	2004							2003 Total
	Reporting Entity			Component Units				
	Single-Family Mortgage Component	Multi-Family Housing Component	Bond and Obligation Funds	General Fund	STAR Corporation	ABC Corporation	Total	
OPERATING REVENUES:								
Interest income on mortgage loans	\$ 48,971	\$ 82,568	\$ 6,621		\$ 5		\$ 138,160	\$ 158,738
Investment income	12,339	5,026	1,781				19,151	34,865
Fees and charges		7,566	15,879				23,445	23,275
Other income - net		49	1,913		244	392	2,206	5,845
Gain on sale of real estate owned			2				2	68
Total operating revenues	61,310	95,209	26,196		249	392	182,964	222,791
OPERATING EXPENSES:								
Interest	48,039	63,144					111,183	134,822
Insurance costs	760	1,187	1,135				3,082	2,932
Servicing fees and other	2,974	291	66				3,331	6,112
Salaries and related benefits	1,021	3,488	9,325				13,834	13,499
Professional services and financing costs	105	326	453				884	4,243
General and administrative expenses	693	1,618	15,588		789	474	18,770	12,575
Loss on sale of real estate owned	234					234	234	1,098
Provision for loan losses (Note 2)	(2,335)	20,863	1,773				20,301	21,570
Total operating expenses	51,491	90,917	28,340		789	474	171,619	196,841
Net operating income (loss)	9,819	4,292	(2,144)		(540)	(82)	11,345	25,950
NON-OPERATING EXPENSES:								
Loss on early extinguishment of debt (Note 3)	1,480	201					1,681	1,790
Amortization of economic loss on defeasance of bonds		876					876	871
Contributed capital								25,000
Total non-operating expenses	1,480	1,077	-		-	-	2,557	27,661
NON-OPERATING TRANSFERS								
Increase (decrease) in net assets	8,339	1,945	(874)		(540)	(82)	8,788	(1,711)
NET ASSETS, BEGINNING OF YEAR	156,146	63,676	505,310		290	1,169	726,591	728,302
NET ASSETS, END OF YEAR	\$ 164,485	\$ 65,621	\$ 504,436		\$ (250)	\$ 1,087	\$ 735,379	\$ 726,591

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Revenues, Expenses, and Changes in Net Assets
 (in thousands)
 For Fiscal Years Ended June 30, 2004 and 2003

	2003					Total		
	Reporting Entity		Component Units					
	Business Type Activities -- Bond and Obligation Funds	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
OPERATING REVENUES:								
Interest income on mortgage loans	\$ 66,199	\$ 83,370	\$ 9,169					\$ 158,738
Investment income	12,506	7,739	14,620					34,865
Fees and charges		6,769	16,506					23,275
Other income - net		346	5,254		\$ 311	\$ 403	\$ (469)	5,845
Gain on sale of real estate owned			68					68
Total operating revenues	78,705	98,224	45,617		311	403	(469)	222,791
OPERATING EXPENSES:								
Interest	67,180	67,642						134,822
Insurance costs	1,407	837	688					2,932
Servicing fees and other	3,737	290	2,085					6,112
Salaries and related benefits	1,397	3,871	8,231					13,499
Professional services and financing costs	100	451	3,692					4,243
General and administrative expenses	889	1,557	9,464		811	323	(469)	12,575
Loss on sale of real estate owned	1,088							1,088
Provision for loan losses (Note 2)	(5,487)	25,222	1,835					21,570
Total operating expenses	70,311	99,870	25,995		811	323	(469)	196,841
Net operating income (loss)	8,394	(1,646)	19,622		(500)	80	-	25,950
NON-OPERATING EXPENSES:								
Loss on early extinguishment of debt (Note 3)	1,573	217						1,790
Amortization of economic loss on defeasance of bonds Contributed capital		871						871
Total non-operating expenses	1,573	1,088	25,000					25,000
NON-OPERATING TRANSFERS								
Increase (decrease) in net assets	6,821	(39,688)	31,576		(500)	80	-	(1,711)
NET ASSETS, BEGINNING OF YEAR	149,325	103,364	473,734		790	1,089	-	728,302
NET ASSETS, END OF YEAR	\$ 156,146	\$ 63,676	\$ 505,310		\$ 290	\$ 1,169	\$ -	\$ 726,591

The accompanying Notes to Financial Statements are an integral part of this statement.

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Cash Flows
 For Fiscal Years Ended June 30, 2004 and 2003

	2004						
	Reporting Entity			Component Units			
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Interest on mortgages & loans	\$ 52,900	\$ 73,447	\$ 8,388				\$ 134,746
Fees, charges and other	(1,277)	8,151	16,687				23,577
Operating expenses	(4,249)	(1,804)	(33,284)				(39,436)
Mortgage purchases and advances	(202,535)	(92,824)	(112,239)				(407,597)
Principal payments on mortgage receivables	354,896	88,317	61,523				504,736
Funds held in trust		205	(11,066)				(10,861)
Transfers and other	(3,053)	(7,311)	14,332				3,088
	196,682	68,181	(55,649)				208,253
Net cash provided by (used in) operating activities				2	(963)		
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:							
Proceeds from sale of bonds & obligations	277,065	157,890					434,945
Retirement of bonds	(397,930)	(89,169)					(487,099)
Interest payments, net of accrued interest	(49,611)	(63,183)					(112,794)
Cost of issuance	(1,023)	(1,425)					(2,447)
Increase in due to HUD		(3)					(3)
	(171,499)	4,100					(167,399)
Net cash provided by (used in) non-capital financing							
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:							
Additions to property, plant and equipment			(908)				(908)
			(908)				(908)
Net cash (used in) capital financing							
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of investments	(555,970)	(348,964)	(35,706)				(940,641)
Sales/maturities of investments	497,354	251,486	45,526				794,366
Earnings on investments	11,679	5,105	16,341				33,126
	(46,937)	(92,373)	26,161				(113,149)
Net cash provided by (used in) investing activities							
NET INCREASE (DECREASE) IN CASH	(21,754)	(20,092)	(30,356)	2	(963)		(73,203)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	136,499	79,986	364,849	119	1,946		583,399
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 114,745	\$ 59,894	\$ 334,453	\$ 121	\$ 983		\$ 510,196

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Cash Flows
 (in thousands)
 For Fiscal Years Ended June 30, 2004 and 2003

	2004						
	Reporting Entity				Component Units		
	Bond and Obligation Funds	Multi- Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:							
Operating income (loss)	\$ 9,819	\$ 4,292	\$ (2,144)	\$ (540)	\$ (82)	\$	\$ 11,346
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	(2,334)	20,862	1,376	620			1,996
Provision for loan losses, net			1,773				20,301
Gain on sale of real estate owned			(2)				(2)
Loss on sale of real estate owned	234						234
Investment interest income	(12,339)	(5,026)	(3,396)				(20,762)
Bond interest expense	48,039	63,144					111,183
Changes in operating assets and liabilities, net of effects from acquisition of businesses:							
(Increase) decrease in loans - net	152,733	(14,028)	(48,449)		(5)		90,251
(Increase) decrease in fees and other charges receivable	2,995		337				337
(Increase) decrease in due from loan servicers and insurers	(1,181)		(48)				2,947
Net acquisition of real estate	49	(325)	(85)				(1,266)
(Increase) decrease in other assets	(1,276)	(611)	200	3	82		9
Increase (decrease) in due to/from other funds			1,887				
Increase (decrease) in advance from the State of New Jersey for bond and housing assistance			(241)				(241)
Increase (decrease) in minimum escrow requirement		269	42				311
Increase (decrease) in mortgage escrow deposits		91	(3,930)				(3,839)
Increase (decrease) in subsidy payments received in advance			(5,076)				(5,076)
Increase (decrease) in deferred revenue			542				542
Increase (decrease) in other liabilities	(57)	937	2,133	(81)	(958)		1,974
Transfers and other		(1,424)	(588)				(1,992)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 196,682	\$ 68,181	\$ (55,649)	\$ 2	\$ (963)	\$	\$ 208,253

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Cash Flows
 (in thousands)
 For Fiscal Years Ended June 30, 2004 and 2003

	2003						
	Reporting Entity			Component Units			
	Business Type Activities --						
	Bond and Obligation Funds	Multi- Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Interest on mortgages & loans	\$ 67,109	\$ 78,056	\$ 9,585				\$ 154,750
Fees, charges and other	(483)	6,976	16,883				23,376
Operating expenses	(5,628)	(1,023)	(29,028)		\$ 2,876		(32,930)
Mortgage purchases and advances	(45,830)	(95,878)	(68,916)	\$ 73	(2,686)		(203,183)
Principal payments on mortgage receivables	308,489	102,724	76,946				488,159
Funds held in trust		(1,858)	(7,155)				(9,013)
Transfers and other	(2,607)	(24,744)	29,797	2	(693)		1,755
Net cash provided by (used in) operating activities	321,050	64,453	38,112	2	(703)		422,914
CASH FLOWS FROM NON-OPERATING ACTIVITIES:							
Contribution to related entity			(25,000)				(25,000)
Net cash (used in) non-operating activities			(25,000)				(25,000)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:							
Proceeds from sale of bonds & obligations	223,095	236,155					459,250
Retirement of bonds	(411,270)	(229,370)					(640,640)
Interest payments, net of accrued interest	(71,751)	(68,678)					(140,429)
Cost of issuance	(641)	(2,209)					(2,850)
Increase in due to HUD		20					20
Net cash (used in) non-capital financing	(260,567)	(64,082)					(324,649)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:							
Additions to property, plant and equipment			(709)				(709)
Net cash (used in) capital financing			(709)				(709)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of investments	(583,783)	(427,141)	(50,000)				(1,060,924)
Sales/maturities of investments	586,437	417,679	10,508				1,014,624
Earnings on investments	14,854	8,461	1,802				25,117
Net cash provided by (used in) investing activities	17,508	(1,001)	(37,690)				(21,183)
NET INCREASE (DECREASE) IN CASH	77,991	(630)	(25,287)	2	(703)		51,373
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,508	80,616	390,136	117	2,649		532,026
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 136,499	\$ 79,986	\$ 364,849	\$ 119	\$ 1,946	\$	\$ 583,399

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Statements of Cash Flows
 (in thousands)

For Fiscal Years Ended June 30, 2004 and 2003

	2003						
	Reporting Entity			Component Units			
	Bond and Obligation Funds	Multi- Family Housing Component	General Fund	STAR Corporation	ABC Corporation	Eliminations	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:							
Operating income (loss)	\$ 8,394	\$ (1,646)	\$ 19,622	\$ (500)	\$ 80	\$	\$ 25,950
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	(5,487)	25,222	1,184	619			1,803
Provision for loan losses, net			1,835				21,570
Gain on sale of real estate owned			(68)				(66)
Loss on sale of real estate owned	1,088						1,088
Investment interest income	(12,506)	(7,739)	(14,620)				(34,865)
Bond interest expense	67,180	67,642					134,822
Changes in operating assets and liabilities, net of effects from acquisition of businesses:							
(Increase) decrease in loans - net	262,943	9,163	18,697				290,803
(Increase) decrease in fees and other charges receivable	(1,106)		(1,792)				(1,792)
(Increase) decrease in due from loan servicers and insurers	1,373	(1,478)	(69)				(1,175)
(Increase) decrease deferred charges bond issuance costs	1,982		(29)				(105)
Net acquisition of real estate	117	108	3		(90)		1,953
(Increase) decrease in other assets	(177)	(1,280)	1,454	(20)			118
(Increase) decrease in due to/from other funds							(3)
Increase (decrease) in advance from the State of New Jersey for bond and housing assistance			(461)				(461)
Increase (decrease) in minimum escrow requirement		(259)	147				(112)
Increase (decrease) in mortgage escrow deposits		(357)	(11,764)				(12,121)
Increase (decrease) in subsidy payments received in advance			(5,463)				(5,463)
Increase (decrease) in deferred revenue	(144)	(179)	586				586
Increase (decrease) in other liabilities	(2,607)	(24,744)	(947)	(97)	(693)		(2,060)
Transfers and other			29,797				2,446
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 321,050	\$ 64,453	\$ 38,112	\$ 2	\$ (703)	\$	\$ 422,914

The accompanying Notes to Financial Statements are an integral part of this statement.

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY

Notes to Financial Statements (in thousands)

For the Year Ended June 30, 2004

1. DESCRIPTION OF THE AGENCY

Authorizing Legislation and Organization - The New Jersey Housing & 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 & 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 Agency is considered to be a component unit of the State of New Jersey and, as such, is a nontaxable entity.

The initial legislation and subsequent amendment grant the Agency the power to obtain funds through bond sales and to use the proceeds 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 & 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 9 to the financial statements for a more detailed discussion of the Agency's bonds, notes and obligations.

On April 29, 1996, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the STAR 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.

On April 17, 1997, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the ABC 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 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.

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 (CONT'D)

Federal Subsidy Programs (Cont'd) - 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 \$300,637 and \$288,698 for the fiscal years ended June 30, 2004 and 2003 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 \$18,018 and \$18,047 for the fiscal years ended June 30, 2004 and 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of Agency have been prepared on the accrual basis of accounting.

Basis of Presentation/Reporting Model - The financial statements of the Agency are prepared in accordance with GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

Governmental Accounting Standards Board - Statement No. 20 - The Authority is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 20 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 Authority has elected not to follow any FASB pronouncements issued after November 30, 1989.

Description of Funds - Pursuant to the Agency's bond and obligation resolutions (the bond resolutions), separate funds have been established to record all transactions relating to each of the bond resolutions. Within 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. The Agency has established a General Fund, which is used to record transactions, which are not directly related to a specific bond resolution.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Reporting Entity - The GASB establishes the criteria used in determining which organizations should be included in the Agency's financial statements. The Agency's financial statements are presented as a proprietary type fund activity. Generally accepted accounting principles require the inclusion of the transactions of government organizations for which the Agency is financially accountable.

The extent of financial accountability is based upon several criteria including: appointment of a voting majority, imposition of will, financial benefit to or burden on a primary government and financial accountability as a result of fiscal dependency.

The Agency is a component unit included in the State of New Jersey's comprehensive annual financial report.

Cash and Cash Equivalents – Cash equivalents include amounts held in the State of New Jersey Cash Management Fund, which include obligations of banking institutions of which a substantial portion are either secured by investments in governmental obligations or are FDIC insured. 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 market value.

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:

<u>Asset Class</u>	<u>Useful life</u>
Buildings and building improvements	25
Automobiles	4
Machinery and equipment	4-10
Furniture and equipment	5

Expenditures 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 General Fund of the Agency for projects in interest-bearing accounts. Such interest accrues to the benefit of the projects and is not recorded as Agency revenue.

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, accrued as due monthly.

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 Bonds. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operations (Cont'd) - Interest expense on the bonds and obligations include amortization of bond discount and premium using the effective interest method.

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 \$145,589 and \$140,439 as of June 30, 2004 and 2003, 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 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, 2004 and 2003.

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. A provision for compensated absences has been made in the Other Non-Current Liabilities section in the Statement of Net Assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Net Assets - Net assets comprise the various earnings from operating income, non-operating revenues, expenses and capital contributions. Net assets are classified in the following three components.

Net Assets 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 under bond and obligation resolutions – 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 allocated for specific purposes by the Board.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. EARLY EXTINGUISHMENT OF DEBT

During the fiscal years ended June 30, 2004 and 2003, as a result of prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately \$285,062 and \$288,485. Net losses of \$1,681 and \$1,790 for the fiscal years ended June 30, 2004 and 2003 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.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are substantially restricted under the terms of the bond resolutions primarily for the payment of bond principal and interest expense and the funding of mortgage loans. Substantially, all the cash in the Multi-Family and Single-Family Mortgage Component consists of amounts related to payments for mortgages and those amounts are maintained in interest-bearing accounts until invested in accordance with the terms of the Multi-Family and Single-Family resolutions. The Multi-Family and Single-Family resolutions limit investments to obligations of the U.S. Government or its agencies, investments in certain certificates of deposit of commercial banks which are members of the Federal Reserve System, investments in the State of New Jersey Cash Management Fund (permitted under substantially all resolutions adopted starting in 1979), investment agreements and direct and general obligations of any State which meet the minimum requirements of the resolution.

Merrill Lynch Investment Program - The Agency invests a substantial portion of its general fund monies with Merrill Lynch Investment Managers, L.P. ("MLIM"). These monies are invested according to the parameters set forth in the Investment Policy statement as approved by the Agency's Board on August 23, 2001. The Investment Policy statement establishes investment objectives and requirements, such as eligible investments, concentration limits/portfolio diversification, and credit quality considerations. Eligible investments include US Treasury, Government and federal agency obligations, commercial paper, repurchase agreements, corporate bonds and notes, bank time deposits and CDs, asset-backed securities, mortgage-backed securities, collateralized mortgage obligations, and money market mutual funds.

All bank deposits as of June 30, 2004 are classified as to credit risk by the three categories described below:

Category 1

Insured or collateralized with securities held by the Agency or by its agent in the Agency's name.

Category 2

Collateralized with securities held by the pledging public depository's trust department or agent in the Agency's name.

Category 3

Uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository, or by its trust department or agent but not in the Agency's name.

Notes to Financial Statements (in thousands) (Cont'd)

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents - The bank balances of the Agency's cash deposits as of June 30, 2004 were as follows:

Bank Balance

<u>Category</u>	<u>Single Family</u>	<u>Multi Family</u>	<u>General Fund</u>	<u>ABC</u>
1	\$ 164		\$ 489	\$ 1
2	7,689		8,405	
3	423	\$ 514		

Carrying Balance

<u>Category</u>	<u>Single Family</u>	<u>Multi Family</u>	<u>General Fund</u>	<u>ABC</u>
1	\$ 150		\$ 310	\$ 2
2	7,689		5,170	
3	423	\$ 514		

New Jersey Cash Management Fund - The State of New Jersey Cash Management Fund is managed by the State of New Jersey, Division of Investments under the Department of the Treasury. The Fund consists of U.S. Treasury obligations, government agency obligations, certificates of deposit and commercial paper.

Amounts invested in the New Jersey Cash Management Fund as of June 30, 2004 are as follows:

Single-family component	\$ 106,483
Multi-family component	59,380
General fund	328,973 *
STAR Corporation	121
ABC Corporation	981
	<u>\$ 495,938</u>

* This number also includes funds invested in the Merrill Lynch Cash Management Fund.

Investments - Investments made by the Agency as of June 30, 2004 are summarized below. The investments that are represented by specified identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1

Insured or registered, with securities held by the Agency or by its agent in the Agency's name.

Category 2

Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Agency's name.

Category 3

Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Agency's name.

Notes to Financial Statements (in thousands) (Cont'd)

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONT'D)

Investments (Cont'd) - The Agency General Fund is authorized to use a variety of investments. The Bond and Obligation funds are confined to those investments allowed by the applicable bond documents, which have been approved by the Agency's Board. Investments held as of June 30, 2004 are as follows:

	Category			Par Value	Market Value
	1	2	3		
Single-family Component					
Investment agreements	---	---	\$ 354,208	\$ 354,208	\$ 354,208
Multi-family Component					
Investment agreements		\$ 2,033	\$ 272,150	\$ 274,183	\$ 274,183
Repurchase agreements		7,765		7,765	7,765
U. S. Government and Agency securities			23,807	23,807	23,425
	---	\$ 9,798	\$ 295,957	\$ 305,755	\$ 305,373
General Component					
U. S. Government and Agency securities			\$ 81,761	\$ 81,761	\$ 78,378
Non-Agency Mortgage-Backed Securities			5,200	5,200	5,181
Commercial Paper			18,696	18,696	18,696
Floating Rate Notes			12,892	12,892	12,915
Asset Backed Securities	\$ 12,496		37,875	50,371	50,419
Corporate Notes			108,411	108,411	108,062
Other			3,000	3,000	2,988
	\$ 12,496	---	\$ 267,835	\$ 280,331	\$ 276,639
			Current Investments	Non-Current Investments	Total
Single Family Component			\$ 217,065	\$ 137,143	\$ 354,208
Multi-Family Component			71,089	234,284	305,373
General Component			54,900	221,739	276,639
			\$ 343,054	\$ 593,166	\$ 936,220

In connection with certain bond resolutions, investment agreements are entered into by the Trustees, at the Agency's instruction, whereby funds are invested with certain financial institutions. Under certain circumstances, collateralization of the funds may or may not be required or may or may not be provided.

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, 2004 and 2003, the maximum amount invested in repurchase agreements by the Agency was \$40,976 and \$45,173, respectively. All repurchase agreements were invested overnight.

Notes to Financial Statements (in thousands) (Cont'd)

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONT'D)

Investments (Cont'd) – 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 approximately \$34,029 (market value) and \$37,826 as of June 30, 2004 and 2003. The debt service reserve for several of the Multi-Family issues is called the Housing Finance Fund or account. The debt service reserve investments for the Single-Family Component (funded by bond proceeds or contributed cash) are included above and aggregate approximately \$16,522 and \$23,360 as of June 30, 2004 and 2003. 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 \$106,342 and \$97,675 and the Single-Family component had \$25,830 and \$38,814 of Surety Bonds outstanding as of June 30, 2004 and 2003.

	Single-Family	Multi-Family	General Fund	STAR Corporation	Total
For the Fiscal Year Ended June 30, 2004					
Investment Income:					
Interest Income on Investments	\$ 12,339	\$ 5,207	\$ 9,478	\$ 5	\$ 27,029
Unrealized Gain (Loss) on Investments		(181)	(7,697)		(7,878)
	<u>\$ 12,339</u>	<u>\$ 5,026</u>	<u>\$ 1,781</u>	<u>\$ 5</u>	<u>\$ 19,151</u>
For the Fiscal Year Ended June 30, 2003					
Investment Income:					
Interest Income on Investments	\$ 12,506	\$ 7,739	\$ 10,088		\$ 30,333
Unrealized Gain (Loss) on Investments			4,532		4,532
	<u>\$ 12,506</u>	<u>\$ 7,739</u>	<u>\$ 14,620</u>		<u>\$ 34,865</u>

5. 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, 2004 and 2003 are as follows:

	June 30,	
	2004	2003
Mortgage loans receivable	\$ 710,665	\$ 862,758
Unearned discounts - net	(180)	(237)
Loan origination costs - net	8,716	10,907
Commitment fees - net	(6,402)	(9,016)
Allowance for loan losses	<u>(3,613)</u>	<u>(5,510)</u>
Mortgage receivable - net	709,186	858,902
Less current portion	<u>(15,970)</u>	<u>(19,388)</u>
Long term portion	<u>\$ 693,216</u>	<u>\$ 839,514</u>

Notes to Financial Statements (in thousands) (Cont'd)

5. MORTGAGE LOANS RECEIVABLE (CONT'D)

Multi-Family Housing Component - The Multi-Family Housing mortgage loans receivable as of June 30, 2004 and 2003 consisted of the following:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	\$ 331,322	\$ 375,620
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	202,910	211,403
Unsubsidized mortgage loans	515,037	486,491
Government National Mortgage Association, 9.95%, maturity November 15, 2020	<u>5,056</u>	<u>5,111</u>
	1,054,325	1,078,625
Allowance for loan losses	(58,866)	(48,801)
Construction advances (undisbursed)	<u>29,578</u>	<u>2,150</u>
Mortgage receivable - net	1,025,037	1,031,974
Less current portion	<u>(39,995)</u>	<u>(35,836)</u>
Long term portion	<u>\$ 985,042</u>	<u>\$ 996,138</u>

General Fund Component - The General Fund mortgage loans receivable as of June 30, 2004 and 2003 consisted of the following:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	\$ 31,543	\$ 25,771
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	13,929	11,541
Unsubsidized mortgage loans	159,449	112,696
Unearned discounts - net	(116)	(144)
Unearned premiums - net	1	2
Loan origination costs - net	<u>462</u>	<u>140</u>
	205,268	150,006
Allowance for loan losses	(39,400)	(27,972)
Construction advances (undisbursed)	<u>(156)</u>	<u>(3,981)</u>
Mortgage receivable - net	165,712	118,053
Less current portion	<u>(3,626)</u>	<u>(3,254)</u>
Long term portion	<u>\$ 162,086</u>	<u>\$ 114,799</u>

Notes to Financial Statements (in thousands) (Cont'd)

5. MORTGAGE LOANS RECEIVABLE (CONT'D)

These 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.

6. DEBT SERVICE ARREARS RECEIVABLE

Debt service arrearages consist of mortgage principal, interest payments and fees in arrearages on permanently financed loans, net of the allowance for loan losses as described in Note 2. The debt service arrearages receivable was \$43,424 and \$28,353 at June 30, 2004 and 2003. The debt service allowance for loan losses was \$39,042 and \$23,064 as of June 30, 2004 and 2003. A subsidy payment receivable of \$1,126 and \$1,051 was due at June 30, 2004 and 2003.

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 arrearages and all interest in arrearages 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 \$18,350 and \$9,319 against interest receivable was recorded at June 30, 2004 and 2003. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to \$246,370 and \$151,653 as of June 30, 2004 and 2003.

Notes to Financial Statements (in thousands) (Cont'd)

7. 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.

The supplemental mortgages and other loans receivable as of June 30, 2004 and 2003, consisted of the following:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	\$ 1,467	\$ 1,475
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	7,483	7,426
Agency supplemental mortgages	94,492	45,451
HUD supplemental mortgages	881	881
Loans to projects	7,275	8,564
State of New Jersey supplemental mortgages	14,895	15,405
Other	<u>57,261</u>	<u>121,781</u>
Subtotal	183,754	200,983
Allowance for loan losses	(43,710)	(58,156)
Undisbursed supplemental mortgage proceeds	<u>(17,587)</u>	<u>(21,187)</u>
Supplemental mortgages and other loans receivable - net	122,457	121,640
Less current portion	<u>(1,200)</u>	<u>(1,551)</u>
Long term portion	<u>\$ 121,257</u>	<u>\$ 120,089</u>

8. CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>Balance</u> <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2004</u>
Land	\$ 1,384			\$ 1,384
Buildings and building improvements	18,084			18,084
Automobiles	346	\$ 84		430
Machinery and equipment	3,043	1,540	\$ 95	4,488
Furniture and fixtures	409	7	1	415
	<u>23,266</u>	<u>1,631</u>	<u>96</u>	<u>24,801</u>
Less accumulated depreciation	<u>(8,072)</u>	<u>(1,996)</u>		<u>(10,068)</u>
Capital assets - net	<u>\$ 15,194</u>	<u>(\$ 365)</u>	<u>\$ 96</u>	<u>\$ 14,733</u>

Depreciation expense was \$1,996 and \$1,803, respectively for the fiscal years ended June 30, 2004 and 2003.

Notes to Financial Statements (in thousands) (Cont'd)

9. BONDS AND OBLIGATIONS

The Agency obtains funds to finance its operations through the sale of bonds and other obligations. Interest on Agency bonds and obligations is payable monthly, quarterly or semiannually. Amounts used to fund financing are generated by the Agency from interest earned on mortgage loans, home improvement loans and investments. 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, 2004 the following bonds and obligations:

		NET		ISSUED	NET		NET
		BONDS	MATURED/ CALLED/ REDEEMED		ACCRETION CAPITAL APPRECIATION BONDS	CHANGE IN UNAMORTIZED BOND PREMIUM/ DISCOUNT	
SINGLE FAMILY COMPONENT		JUNE 30, 2003					JUNE 30, 2004
HOME BUYER REVENUE BONDS							
1993 SERIES G	4.625%, due 2014 to 2015	\$ 11,915	\$ 8,585				\$ 3,330
1993 SERIES H	5.50%, due 2026	4,920	4,920				
1994 SERIES I	5.15% to 5.50%, due 2004 to 2009	14,555	3,025				11,530
1994 SERIES J	6.20%, due 2022 to 2025	38,900	17,595				21,305
1994 SERIES K	5.50% to 6.375%, due 2004 to 2026	38,490	9,490				29,000
1994 SERIES L	6.0% to 6.65%, due 2004 to 2014	32,505	5,495				27,010
1994 SERIES M	6.90% to 6.95%, due 2016 to 2022	23,245	15,940				7,305
1995 SERIES N	4.95% to 6.00%, due 2004 to 2016	30,575	4,960				25,615
1995 SERIES O	6.125% to 6.35%, due 2021 to 2027	32,765	13,420				19,345
1996 SERIES P	4.75% to 5.60%, due 2004 to 2013	19,290	3,850				15,440
1996 SERIES Q	5.80% to 5.875%, due 2014 to 2017	20,110	15,020				5,090
1996 SERIES R	5.00% to 5.60%, due 2006 to 2013	19,025	2,890				16,135
1996 SERIES S	5.00% to 6.00%, due 2004 to 2021	53,520	22,580				30,940
1997 SERIES T	4.90% to 5.60%, due 2007 to 2017	4,455	155				4,300
1997 SERIES U	4.90% to 5.85%, due 2004 to 2029	140,965	22,395				118,570
1998 SERIES V	4.75% to 5.25%, due 2009 to 2026	23,340	-				23,340
1998 SERIES W	4.30% to 4.75%, due 2004 to 2017	31,765	15,360				16,405
1998 SERIES X	5.25% to 5.35%, due 2012 to 2029	56,820	11,975				44,845
1999 SERIES Z	5.25% to 5.70%, due 2010 to 2017	57,255	22,520				34,735
1999 SERIES AA	4.80% to 5.45%, due 2004 to 2026	115,370	23,710				91,660
2000 SERIES BB	4.35% to 5.30%, due 2004 to 2017	35,360	3,440				31,920
2000 SERIES CC	4.90% to 5.875%, due 2017 to 2031	107,000	23,780				83,220
2003 SERIES DD	1.05%, due 2004	49,665	49,665				
2003 SERIES EE	1.10%, due 2004	81,430	81,430				
2003 SERIES FF	variable rate, due 2009 to 2025	92,000	15,730				76,270
SUBTOTAL HOME BUYER REVENUE BONDS		1,135,240	397,930	-	-	-	737,310

Notes to Financial Statements (in thousands) (Cont'd)

9. BONDS AND OBLIGATIONS (CONT'D)

				NET	NET	NET	
				ACCRETION	CHANGE IN	NET	
	BONDS	MATURED/ CALLED/ REDEEMED	ISSUED	CAPITAL	BOND	BONDS	
	OUTSTANDING			APPRECIATION	PREMIUM/ DISCOUNT	OUTSTANDING	
SINGLE FAMILY COMPONENT (CONT'D)	JUNE 30, 2003			BONDS		JUNE 30, 2004	
HOUSING REVENUE BONDS							
2003 SERIES A	1.05%, due 2004		\$ 23,800			\$ 23,800	
2003 SERIES B	1.10%, due 2004		56,185			56,185	
2003 SERIES C	1.65% to 5.00%, due 2005 to 2033		23,280		\$ (9)	23,271	
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 E	1.00%, due 2005		51,455			51,455	
2004 SERIES F	1.05%, due 2005		85,625			85,625	
SUBTOTAL HOUSING REVENUE BONDS		-	-	277,925	-	(9)	277,916
TOTAL SINGLE FAMILY		\$ 1,135,240	\$ 397,930	\$ 277,925	\$ -	\$ (9)	\$ 1,015,226
MULTI-FAMILY COMPONENT							
GENERAL HOUSING LOAN BONDS *							
1970 SERIES A	4.50%, due 2004 to 2019	\$ 2,995	\$ 120			\$ 2,875	
1971 SERIES A	5.35% to 5.40%, due 2004 to 2019	22,590	1,300			21,290	
1972 SERIES A	5.70% to 5.80%, due 2004 to 2013	30,540	9,635			20,905	
1972 SERIES B	5.20% to 5.25%, due 2004 to 2021	32,065	1,130			30,935	
SUBTOTAL GENERAL HOUSING LOAN BONDS		88,190	12,185			76,005	
SECTION 11(b) MULTI-FAMILY							
HOUSING REVENUE BONDS							
1983 SERIES A	10.375%, due 2004 to 2025 (HIGHVIEW TERRACE)	2,850	35			2,815	
MULTI-FAMILY HOUSING REVENUE							
1985 SERIES I	9.6% to 11.40%, due 2004 to 2026 (ROGER GARDENS)	4,879	5,407	\$ 528			
MULTI-FAMILY HOUSING REVENUE							
BONDS 1991 SERIES	6.50% to 7.00%, due 2004 to 2030 (PRESIDENTIAL PLAZA)	127,915	1,770			126,145	

Notes to Financial Statements (in thousands) (Cont'd)

9. BONDS AND OBLIGATIONS (CONT'D)

		NET		NET		NET	
		BONDS		ACCRETION	CHANGE IN	NET	
		OUTSTANDING	MATURED/ CALLED/ REDEEMED	CAPITAL	BOND	BONDS	
MULTI-FAMILY COMPONENT (CONT'D)		JUNE 30, 2003	ISSUED	APPRECIATION BONDS	PREMIUM/ DISCOUNT	JUNE 30, 2004	
MULTI-FAMILY HOUSING REVENUE BONDS							
1995 SERIES A	5.05% to 6.05%, due 2004 to 2020	\$ 135,165	\$ 8,045				\$ 127,120
1995 SERIES B	5.15% to 6.20%, due 2004 to 2020	6,280	215				6,065
1995 SERIES C	7.25%, due 2004 to 2012	1,795	155				1,640
1996 SERIES A	5.25% to 6.25%, due 2005 to 2028	26,320	485				25,835
1996 SERIES B	7.33% to 8.37%, due 2004 to 2028	13,750	705				13,045
1997 SERIES A	4.45% to 5.65%, due 2004 to 2040	67,070	755				66,315
1997 SERIES B	4.30% to 5.40%, due 2004 to 2028	10,975	205				10,770
1997 SERIES C	6.47% to 7.42%, due 2004 to 2040	19,770	760				19,010
1999 SERIES A	3.95% to 5.15%, due 2004 to 2030	22,280	2,980				19,300
1999 SERIES B	3.85% to 4.70%, due 2004 to 2013	1,625	135				1,490
1999 SERIES C	5.97% to 7.12%, due 2004 to 2030	5,590	75				5,515
2000 SERIES A1	5.10% to 6.35%, due 2004 to 2032	15,280	205				15,075
2000 SERIES A2	5.10% to 6.35%, due 2004 to 2029	2,860	45				2,815
2000 SERIES B	5.00% to 6.25%, due 2004 to 2026	57,745	4,485				53,260
2000 SERIES C1	8.38%, due 2004 to 2032	42,020	380				41,640
2000 SERIES C2	variable rate, due 2004 to 2032	14,800	8,955				5,845
2000 SERIES E1	4.65% to 5.75%, due 2004 to 2025	67,815	7,965				59,850
2000 SERIES E2	4.65% to 5.75%, due 2004 to 2025	9,700	275				9,425
2000 SERIES F	7.93%, due 2004 to 2031	16,465	165				16,300
2000 SERIES G	4.65% to 5.35%, due 2004 to 2013	2,815	195				2,620
2001 SERIES A	3.10% to 5.05%, due 2004 to 2034	26,740	110		\$ 3		26,633
2001 SERIES B	6.64%, due 2004 to 2032	13,585	170				13,415
2001 SERIES C	variable rate, due 2007 to 2033	62,225					62,225
2002 SERIES A	2.40% to 4.25%, due 2004 to 2010	39,060	9,380				29,680
2002 SERIES B	variable rate, due 2004 to 2023	17,525	560				16,965
2002 SERIES C	2.90% to 4.95%, due 2004 to 2015	75,360	7,945				67,415
2002 SERIES D	5.50%, due 2004 to 2022	1,940	65				1,875
2002 SERIES E	7.00%, due 2004 to 2022	4,250	110				4,140
2002 SERIES F	3.75% to 5.40%, due 2004 to 2016	114,375	14,080				100,295
2002 SERIES G	variable rate, due 2004 to 2025	6,165	145				6,020
2003 SERIES A	1.40% to 5.05%, due 2004 to 2044	31,410					31,410
2003 SERIES B	variable rate, due 2004 to 2033	51,500	500				51,000
2003 SERIES C	1.20% to 4.70%, due 2004 to 2033	3,650					3,650
2003 SERIES D	variable rate, due 2004 to 2035	23,900	50				23,850
2004 SERIES A	1.80% to 3.75%, due 2006 to 2014			\$ 16,595			16,595
2004 SERIES B	variable rate, due 2007 to 2046			110,240			110,240
2004 SERIES C	variable rate, due 2006 to 2037			31,045			31,045
SUBTOTAL 1995 BOND RESOLUTION		1,011,805	70,300	157,880	-	3	1,099,388
TOTAL MULTI-FAMILY		\$ 1,235,639	\$ 89,697	\$ 157,880	\$ 528	\$ 3	\$ 1,304,353

9. BONDS AND OBLIGATIONS (CONT'D)

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

The Home Buyer Revenue Bonds are separately secured, special and limited obligations of the Agency payable solely from the revenues and assets pledged to the payment thereof. The Home Buyer Revenue Bonds are not payable from any of the funds or accounts established under any other resolution of the Agency securing bonds and other obligations. The full faith and credit of the Agency is not pledged for the payment of the principal or redemption price of or interest on the Home Buyer Revenue Bonds.

The bonds and obligations marked with an asterisk (*) above are collateralized by: (a) a pledge of the full faith and credit of the Agency, (b) all mortgage repayments to the Agency of mortgage loans financed by bonds or obligations pursuant to the respective Agency resolution, (c) all Agency income resulting from fees and charges collected from sponsors of permanently financed projects under the Agency resolutions pursuant to mortgages and net operating income from such financed projects which the Agency may acquire title to, or take possession of, through protection and enforcement, of its rights under mortgage agreements on such projects, (d) all mortgages pledged as collateral under mortgage loans financed out of bonds or obligations pursuant to the respective Agency resolution, and (e) the funds and accounts under the resolutions and investments thereof.

All other bonds and obligations are separately secured, special obligations of the Agency and are payable solely from the property pledged to the payment thereof. These bonds are not payable from any of the funds or accounts established under any other resolution of the Agency securing bonds and other obligations.

During Fiscal Year 2004, the Agency issued \$277,074 Single Family Housing Revenue Bonds, of which \$60,009 was used to originate new single family mortgage loans and \$217,065 warehoused bonding authority related to mortgage prepayments. The Agency also issued \$157,880 Multi-Family Housing Revenue Bonds to finance mortgage loan funds committed to Multi-Family Housing Sponsors.

As of June 30, 2004 and 2003, there was \$187,056 and \$109,292, 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.

Zero Coupon and Compound Interest Bonds - Zero coupon bonds and compound interest bonds do not bear interest but instead accrete in value continuously until maturity. Accretion, using the effective yield method, is recorded as interest expense with a corresponding increase in the value of the bonds outstanding

Notes to Financial Statements (in thousands) (Cont'd)

9. BONDS AND OBLIGATIONS (CONT'D)

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:

Single Family Bond Component

<u>June 30,</u>	<u>Fixed and Unhedged Variable Rate</u>		<u>Hedged Variable Rate</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	
2005	\$ 243,960	\$ 40,240		\$ 495	\$ 1,255	\$ 285,950
2006	29,145	37,011		495	1,257	67,908
2007	30,690	35,519		496	1,255	67,960
2008	32,440	33,919		497	1,259	68,115
2009	33,770	32,184		495	1,255	67,704
2010-2014	154,735	136,144	\$ 545	2,478	6,279	300,181
2015-2019	163,060	96,650	6,190	2,245	5,833	273,978
2020-2024	133,735	62,434	7,670	1,791	4,803	210,433
2025-2029	123,050	27,547	9,625	1,223	3,415	164,860
2030-2034	33,061	2,842	12,165	508	1,560	50,136
2035-2039			1,385	5	48	1,438
	<u>\$ 977,646</u>	<u>\$ 504,490</u>	<u>\$ 37,580</u>	<u>\$ 10,728</u>	<u>\$ 28,219</u>	<u>\$ 1,558,663</u>

Notes to Financial Statements (in thousands) (Cont'd)

9. BONDS AND OBLIGATIONS (CONT'D)

Future Principal and Interest Requirements (cont'd)

Multi-Family Bond Component

<u>June 30,</u>	<u>Fixed and Unhedged Variable Rate</u>		<u>Hedged Variable Rate</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	
2005	\$ 45,350	\$ 56,255	\$ 800	\$ 3,683	\$ 3,899	\$ 109,987
2006	47,570	54,200	1,365	3,670	6,163	112,968
2007	51,715	51,996	2,145	3,651	7,135	116,642
2008	54,545	49,545	3,010	3,626	7,092	117,818
2009	57,935	46,885	3,195	3,580	7,012	118,607
2010-2014	264,885	191,481	22,630	17,160	33,709	529,865
2015-2019	168,705	130,106	43,925	14,987	29,160	386,883
2020-2024	130,655	83,629	54,950	11,813	22,504	303,551
2025-2029	112,470	46,300	61,935	8,015	14,650	243,370
2030-2034	61,883	14,476	50,555	4,263	7,875	139,052
2035-2039	18,370	4,473	18,100	1,952	4,112	47,007
2040-2044	5,620	549	15,485	960	2,017	24,631
2045-2049	270	7	6,285	89	187	6,838
	<u>\$ 1,019,973</u>	<u>\$ 729,902</u>	<u>\$ 284,380</u>	<u>\$ 77,449</u>	<u>\$ 145,515</u>	<u>\$ 2,257,219</u>

Notes to Financial Statements (in thousands) (Cont'd)

10. 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.

Funds held in trust for mortgagors as of June 30, 2004 and 2003 include the following:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Multi-family Housing Component - unspent subsidies	<u>\$ 9,195</u>	<u>\$ 9,369</u>
General Fund (components included on the balance sheet category "Funds Held in Trust"):		
Community development escrows	3,217	4,314
Development cost escrows	17,970	22,182
Other funds held in trust	<u>168,928</u>	<u>165,384</u>
	<u>190,115</u>	<u>191,880</u>
	<u>\$ 199,310</u>	<u>\$ 201,249</u>

11. 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, 2004 and 2003 include the following:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Multi-family Housing Component	<u>\$ 7,584</u>	<u>\$ 7,494</u>
General Fund:		
Reserve for repairs and replacements	154,503	162,006
Tax and insurance escrows	<u>29,238</u>	<u>25,664</u>
	<u>183,741</u>	<u>187,670</u>
	<u>\$ 191,325</u>	<u>\$ 195,164</u>

12. 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 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.

Notes to Financial Statements (in thousands) (Cont'd)

13. 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.

Appropriated General Fund Net Assets - Appropriated General Fund net assets are funds set aside by the Agency's members for the following purposes at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Multi-Family rental investment program	\$ 420	\$ 3,000
NJHMFA portion of undisbursed mortgage proceeds	15,020	15,020
Portfolio reserve balance	6,607	6,384
Reserve for loan losses 1984-A	5,700	5,700
Transitional housing loans	1,301	851
Shore easy	101	101
UHORP HIF	18,811	29,727
MONI HIF	18,211	17,000
Royal court	497	497
Camden initiative	1,486	1,486
Non-bond multi-family program	26,151	26,151
HOPE	500	500
Equity gap program	135	135
Development disabilities housing program	1,000	1,000
Life safety rehabilitation	524	524
Bond refunding proceeds	9,952	9,952
Urban statewide acquisition - NJUSA	16,953	24,494
UHORP mortgage commitment	6,261	7,127
ABC corporation	3,629	3,629
Strategic zone lending pool	10,000	10,000
Home ownership for permanency program	5,423	1,118
Lanning square west UHORP #229	97	100
Westfield acres UHORP #1103	715	715
Pinnacle estates UHORP #1102	556	556
Fellowship heights one UHORP #1101	1,963	1,963
West end housing development UHORP #501	75	75
Wilkinson bayview Uhorp #203	0	306
Monument crossing UHORP #326	0	200
Information technology	640	1,370
Affordable rental housing subsidy loan program	13,691	15,000
Smart living	15,000	15,000
CIAP loan program	5,054	12,500
At home downtown	7,360	7,360
City living	14,520	14,520
Work force initiative	3,000	3,000
Smart start	100	100
Small rental project preservation loan program	20,000	20,000
Scattered site I	11	11
Asbury park initiative pilot	500	500
Community development institute - rutgers	125	187
Nonprofit Acquisition & Predevelopment Fund	5,000	
Social Investment Policy	10,000	
	<u>\$ 247,089</u>	<u>\$ 257,859</u>

Notes to Financial Statements (in thousands) (Cont'd)

14. PENSION PLAN

Salaried employees of the Agency are members of the Public Employees' Retirement System of the State of New Jersey (PERS), a cost-sharing multiple employer public retirement system. PERS' designated purpose is to provide retirement benefits and medical benefits for qualified retirees, and other benefits to its members. The payroll for Agency members of PERS for the fiscal years ended June 30, 2004 and 2003 was approximately \$11,369 and \$11,564, respectively.

All Agency salaried employees are required as a condition of employment to be members of PERS. The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. PERS provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All Agency benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The system also provides death and disability benefits. Benefits are established by State statute.

Members are required by PERS to contribute 3% of their salary. The Agency is required by state statute to contribute the remaining amounts necessary to pay benefits when due. The amount of the Agency's contribution is certified each year by PERS on the recommendation of the actuary who makes an annual actuarial valuation. The valuation is a determination of the financial condition of PERS. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest.

Funding by the State and related employers is based upon annual actuarially determined percentages of total compensation of all active members. This amount approximates the actuarially determined pension cost for the year, including amortization of prior service cost over 40 years.

Contributions required and made for the fiscal years ended June 30, 2004 and 2003 were \$405 and \$347, respectively, which was all contributed by the employees.

The Pension Benefit Obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the PERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. PERS does not make separate measurements of assets and pension benefit obligations for individual employers. The benefit obligations were determined as part of the most recent annual actuarial valuation dated June 30, 2003. For the year ended June 30, 2003, the State portion of employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

Legislation passed in 1997 (Chapters 114 and 115, P.L. 1997) provided for the use of excess actuarial valuation assets to offset the required normal contribution of the State of New Jersey and the local participating employees.

14. PENSION PLAN (CONT'D)

The employee contribution rate was 3% for calendar years 2004 and 2003. Due to the recognition of the bond proceeds and the change in the asset valuation method as a result of enactment Chapters 114 and 115, unfunded accrued liabilities of the System were eliminated except for the unfunded liability for local early retirement incentive benefits. Prior to Chapters 114 and 115, the System had a \$168,337 unfunded liability for such benefits.

At the State of New Jersey level, the actuarial value of total assets was \$11,073,157; the actuarial accrued total liability was \$10,760,557; the surplus over actuarial accrued liability was \$312,600; the funded ratio was 102.9%; the covered payroll was \$3,511,151 and the actuarial surplus as a percentage of covered payroll was 8.9%. At the local level, the actuarial value of total assets was \$16,503,081; the actuarial accrued total liability was \$14,929,334; the surplus over actuarial accrued liability was \$1,573,747; the funded ratio was 110.5%; the covered payroll was \$5,534,323 and the actuarial surplus as a percentage of covered payroll was 28.4%.

A variety of significant actuarial assumptions are used to determine the valuation of the pension benefits obligation, including (a) an assumed discount rate of 8.75%, which is in excess of the current prevailing market rate, (b) projected salary increases, including inflation, merit and productivity of 2.4% to 7.35%. Mortality, vestings, retirement age and withdrawal estimates are based upon tables supplied by the Plan actuary.

15. POST EMPLOYMENT BENEFITS

Chapter 6 of P.L. 1990 requires PERS to fund post-retirement medical benefits for those State employees who retire after reaching age 60 and accumulate 25 years of credited service. As of June 30, 2003, there were 61,549 retirees receiving post-employment medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994 with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve of .5% of the active State payroll.

In accordance with P.L. 2002, c.11 which allowed the State to use available reserves in the Post-Retirement Medical Reserve Funds to cover required pay-as-you-go medical premiums, the State did not make a contribution to the PERS and TPAF in Fiscal Year 2003 toward the cost of post-retirement medical benefits. This legislation also suspends in Fiscal Years 2002 and 2003 the additional post retirement medical contribution to increase the fund balance by one half of one percent of active member salaries for the valuation period. State law provides that post retirement medical contributions resume in Fiscal Year 2004 and will be computed to provide an increase in the reserve fund of three fifths of one percent of active member salaries for the valuation period.

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 \$291 in each fiscal year toward benefits for thirty-eight and thirty-nine eligible retired members in fiscal years 2004 and 2003, respectively.

Notes to Financial Statements (in thousands) (Cont'd)

16. 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.

17. 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 \$874 for the Multi-Family Bond Resolution Fund and \$1,352 for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

The amount of contingent liability for rebate may change as a result of future events. Therefore, the amounts listed above are only an estimate and are not required to be paid at June 30, 2004.

For the Multi-Family Housing Revenue Bonds, 2002 Series A, B, C, D & F, the yield on the mortgage loans is expected to exceed the yield on the bonds by more than the allowable 1.5%. The Agency has covenanted to take such action or actions approved by Bond Counsel to comply with the mortgage yield restriction requirement, including the origination of additional mortgage loans or the pledging of mortgage loans having a yield less than the yield on the bonds. If necessary, the Agency may be required to make a yield reduction payment to the Internal Revenue Service after year ten, which is currently calculated at \$5,862 and \$3,567 as of June 30, 2004 and 2003. The Agency has not recognized this potential liability for FY 2004 and 2003, since as discussed above, the Agency anticipates employing appropriate strategies to eliminate or diminish this liability.

18. 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 eight separate 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 six separate 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.

Terms, fair values, and credit risk:

The terms, fair values, and credit ratings of the outstanding swaps and caps as of June 30, 2004, are summarized in the table below. The caps and the swaps are utilized together to hedge the risk from the associated variable rate debt. Except as discussed under rollover risk, 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. Under the Multi-Family swap agreements, the Agency pays a fixed interest rate on the notional amount that represents the principal amount of the Multi-Family Housing Revenue Bonds 2002 Series G Bonds, and the portion of the 2001 Series C PARS, 2003 Series B ARCs, 2003 Series D ARCs, 2004 Series B PARS, and the 2004 Series C PARS being used to make long-term mortgage loans. Under the Single-Family swap agreements, the Agency pays a fixed interest rate on the notional amount that represents the principal amount of the Single-Family Housing Revenue Bonds 2003 Series D-1 and D-2. 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 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.

Notes to Financial Statements (in thousands) (Cont'd)

18. DERIVATIVE INSTRUMENTS (CONT'D)

Single-Family Bond Component Swaps

Associated Bond Issue	Bond		Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating ^h
	Original Par Amounts	Maximum Notional Amount							
SHRB ^a 2003 D-1	\$ 13,565	\$ 13,565	10/30/2003	10/1/2023	3.9190%	67% of 1-Mo LIBOR ^d + 16bp	\$ (156)	Goldman Sachs ^o	Aaa / AA+ / -
SHRB 2003 D-2	24,015	24,015	10/30/2003	10/1/2034	4.3790%	67% of 1-Mo LIBOR + 18bp	(360)	Goldman Sachs	Aaa / AA+ / -

Multi-Family Bond Component Swaps

MHRB ^b 2001-C	\$ 68,550	\$ 47,970	11/1/2002	5/1/2029	5.0388%	BMA Index ^c	\$ (4,364)	MLCS ^f	Aa3 / A+ / AA-
MHRB 2002-G	6,240	6,240	10/2/2002	5/1/2025	6.2450%	1-Mo LIBOR ^d	(508)	MLCS	Aa3 / A+ / AA-
MHRB 2003-B	51,500	34,850	11/1/2003	5/1/2033	4.3160%	BMA Index	(434)	Goldman Sachs	Aaa / AA+ / -
MHRB 2003-D	23,900	23,750	5/8/2003	5/1/2035	5.2180%	1-Mo LIBOR	795	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	4,416	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	419	Bear Stearns ^g	Aaa / AAA / -

^a Single-Family Housing Revenue Bonds

^b Multi-Family Housing Revenue Bonds

^c The Bond Market Association Municipal Swap Index

^d London Interbank Offered Rate

^e Goldman Sachs Mitsui Marine Derivative Products, L.P.

^f Merrill Lynch Capital Services, Inc. (MLCS)

^g Bear Stearns Financial Products, Inc.

^h Ratings by Moody's / S&P / Fitch

Notes to Financial Statements (in thousands) (Cont'd)

18. DERIVATIVE INSTRUMENTS (CONT'D)

The Agency has also entered into interest rate cap agreements to protect against rising interest rates in the initial years of the 2001 Series C PARS, 2003 Series B and Series D ARCs, and the 2004 Series B and Series C PARS. 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		Cap	Cap	Strike Rate	Variable Rate Index	Fair Values	Counterparty	Counterparty Credit Rating ^f
	Original Par Amounts	Maximum Notional Amount	Cap Effective Date	Cap Maturity Date					
MHRB ^a 2001-C	\$ 68,550	\$ 68,550	10/17/2001	11/1/2005	5.000%	BMA Index ^b	\$ 0	Bear Stearns ^d	Aaa / AAA / -
MHRB 2003-B	51,500	51,500	5/8/2003	5/1/2006	4.500%	BMA Index	1	Bear Stearns	Aaa / AAA / -
MHRB 2003-D	23,900	9,893	5/8/2003	5/1/2005	6.500%	1-Mo LIBOR ^c	0	Bear Stearns	Aaa / AAA / -
MHRB 2004-B due 11/1/2034	19,650	19,650	3/23/2004	5/1/2007	4.500%	BMA Index	16	MLCS ^e	Aa3 / A+ / AA-
MHRB 2004-B due 11/1/2046	90,590	90,590	3/23/2004	5/1/2006	4.500%	BMA Index	11	MLCS	Aa3 / A+ / AA-
MHRB 2004-C	31,045	31,045	3/23/2004	5/1/2006	6.500%	1-Mo LIBOR	1	Bear Stearns	Aaa / AAA / -

^a Multi-Family Housing Revenue Bonds

^b The Bond Market Association Municipal Swap Index

^c London Interbank Offered Rate

^d Bear Stearns Financial Products, Inc.

^e Merrill Lynch Capital Services, Inc. (MLCS)

^f Ratings by Moody's / S&P / Fitch

Fair Value:

Because interest rates have changed since the inception date of each swap, all swaps had a negative or positive fair value as of June 30, 2004. All fair values were estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2004, the Agency was exposed to credit risk on its outstanding swaps with positive fair values in the amount of the derivatives' fair value.

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 46 percent of the notional amount of swaps outstanding is held with a single counterparty. That counterparty is rated Aa1/AA-/AA-. All other swaps are held with separate counterparties. Those counterparties are rated Aa3/A+/AA- or better.

18. DERIVATIVE INSTRUMENTS (CONT'D)

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 eight interest rate swaps serve to guard against a rise in variable interest rates associated with its outstanding variable rate bonds. The Agency's six 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.

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.

Rollover Risk:

The Agency is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. If these swaps are terminated, the Agency will not realize the synthetic rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

<u>Associated Bond Issue</u>	<u>Debt Maturity Date</u>	<u>Swap Termination Date</u>
MHRB 2001-C	11/1/2033	5/1/2029

This Rollover risk is expected to be removed. The agency has certain short term loans that were funded with 2001 Series C bonds. It is the intention of the agency to use the proceeds of these loan maturities to call and redeem the longer maturities of the 2001 Series C bonds. In this way the swap and bonds will become co-terminus.

Notes to Financial Statements (in thousands) (Cont'd)

19. 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. As of June 30, 2004, the available line of credit was \$12,023 of which none was outstanding.

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.

20. SUBSEQUENT EVENTS

On August 5, 2004 the Agency closed \$158,335 in Single-Family Housing Revenue Bonds consisting of Series G (Fixed Rate - Non-AMT), H (Fixed Rate - AMT), & I (Auction Rate - AMT). In addition, on September 15, 2004 the Agency anticipates closing on \$31,375 in Multi-Family Housing Revenue Bonds consisting of Series D (Fixed Rate - AMT).

SUPPLEMENTAL SCHEDULES

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
Detailed Statements of Net Assets - Single-Family Housing Component
(in thousands)
As of June 30, 2004 and 2003

	2004		Total	2003 Total
	Home Buyer Revenue Bond Resolution	Housing Revenue Bond Resolution		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Note 4)	\$ 113,490	\$ 1,255	\$ 114,745	\$ 136,499
Investments, substantially restricted (Note 4)		217,065	217,065	131,095
Accrued interest receivable on investments	1,607	715	2,322	2,427
Mortgage loans receivable - net (Note 5)	14,901	1,069	15,970	19,388
Due from loan servicers and insurers	3,962	224	4,186	7,181
Other assets	163		163	212
Total current assets	134,123	220,328	354,451	296,802
NON-CURRENT ASSETS:				
Investments, substantially restricted (Note 4)	134,353	2,790	137,143	164,496
Mortgage loans receivable - net (Note 5)	627,136	66,080	693,216	839,514
Debt service arrears receivable - net (Note 6)	4,082	173	4,255	5,173
Deferred charges - bond issuance costs - net	4,726	795	5,521	6,755
Real estate owned	1,467		1,467	286
Total non-current assets	771,764	69,838	841,602	1,016,224
TOTAL ASSETS	905,887	290,166	1,196,053	1,313,026
LIABILITIES				
CURRENT LIABILITIES:				
Bonds and obligations - net (Note 9)	26,895	217,065	243,960	158,290
Accrued interest payable on bonds and obligations	9,437	858	10,295	13,495
Total current liabilities	36,332	217,923	254,255	171,785
NON-CURRENT LIABILITIES:				
Bonds and obligations - net (Note 9)	710,415	60,851	771,266	976,950
Other non-current liabilities	1,414	208	1,622	2,444
Due to other funds	4,326	99	4,425	5,701
Total non-current liabilities	716,155	61,158	777,313	985,095
TOTAL LIABILITIES	752,487	279,081	1,031,568	1,156,880
NET ASSETS (Note 13):				
Restricted under bond and obligation resolutions	153,400	11,085	164,485	156,146
TOTAL NET ASSETS	\$ 153,400	\$ 11,085	\$ 164,485	\$ 156,146

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
Detailed Statements of Net Assets - Single-Family Housing Component
(in thousands)
As of June 30, 2004 and 2003

	2003		Total
	Home Buyer Revenue Bond Resolution	Housing Revenue Bond Resolution	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 4)	\$ 136,499		\$ 136,499
Investments, substantially restricted (Note 4)	131,095		131,095
Accrued interest receivable on investments	2,427		2,427
Mortgage loans receivable - net (Note 5)	19,388		19,388
Due from loan servicers and insurers	7,181		7,181
Other assets	212		212
Total current assets	296,802	-	296,802
NON-CURRENT ASSETS:			
Investments, substantially restricted (Note 4)	164,496		164,496
Mortgage loans receivable - net (Note 5)	839,514		839,514
Debt service arrears receivable - net (Note 6)	5,173		5,173
Deferred charges - bond issuance costs - net	6,755		6,755
Real estate owned	286		286
Total non-current assets	1,016,224	-	1,016,224
TOTAL ASSETS	1,313,026	-	1,313,026
LIABILITIES			
CURRENT LIABILITIES:			
Bonds and obligations - net (Note 9)	158,290		158,290
Accrued interest payable on bonds and obligations	13,495		13,495
Total current liabilities	171,785	-	171,785
NON-CURRENT LIABILITIES:			
Bonds and obligations - net (Note 9)	976,950		976,950
Other non-current liabilities	2,444		2,444
Due to other funds	5,701		5,701
Total non-current liabilities	985,095	-	985,095
TOTAL LIABILITIES	1,156,880	-	1,156,880
NET ASSETS (Note 13):			
Restricted under bond and obligation resolutions	156,146	-	156,146
TOTAL NET ASSETS	\$ 156,146	\$ -	\$ 156,146

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
Detailed Statements of Revenues, Expenses, and Changes in Net Assets - Single-Family Housing Component
(in thousands)
For the Fiscal Years Ended June 30, 2004 and 2003

	2004			2003 Total
	Home Buyer Revenue Bond Resolution	Housing Revenue Bond Resolution	Total	
OPERATING REVENUES:				
Interest income on mortgage loans	\$ 46,854	\$ 2,117	\$ 48,971	\$ 66,199
Investment income	11,200	1,139	12,339	12,506
Total operating revenues	<u>58,054</u>	<u>3,256</u>	<u>61,310</u>	<u>78,705</u>
OPERATING EXPENSES:				
Interest	45,386	2,653	48,039	67,180
Insurance costs	731	29	760	1,407
Servicing fees and other	2,793	181	2,974	3,737
Salaries and related benefits	891	130	1,021	1,397
Professional services and financing costs	92	13	105	100
General and administrative expenses	608	85	693	889
Loss on sale of real estate owned	234		234	1,088
Provision for loan losses (Note 2)	(2,723)	388	(2,335)	(5,487)
Total operating expenses	<u>48,012</u>	<u>3,479</u>	<u>51,491</u>	<u>70,311</u>
Net operating income (loss)	<u>10,042</u>	<u>(223)</u>	<u>9,819</u>	<u>8,394</u>
NON-OPERATING EXPENSES:				
Loss on early extinguishment of debt (Note 3)	1,480		1,480	1,573
Total non-operating expenses	<u>1,480</u>	<u>-</u>	<u>1,480</u>	<u>1,573</u>
NON-OPERATING TRANSFERS				
	<u>11,308</u>	<u>(11,308)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(2,746)	11,085	8,339	6,821
NET ASSETS, BEGINNING OF YEAR	<u>156,146</u>	<u>-</u>	<u>156,146</u>	<u>149,325</u>
NET ASSETS, END OF YEAR	<u>\$ 153,400</u>	<u>\$ 11,085</u>	<u>\$ 164,485</u>	<u>\$ 156,146</u>

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
Detailed Statements of Revenues, Expenses, and Changes in Net Assets - Single-Family Housing Component
(in thousands)
For the Fiscal Years Ended June 30, 2004 and 2003

	2003		Total
	Home Buyer Revenue Bond Resolution	Housing Revenue Bond Resolution	
OPERATING REVENUES:			
Interest income on mortgage loans	\$ 66,199		\$ 66,199
Investment income	12,506		12,506
Total operating revenues	78,705	-	78,705
OPERATING EXPENSES:			
Interest	67,180		67,180
Insurance costs	1,407		1,407
Servicing fees and other	3,737		3,737
Salaries and related benefits	1,397		1,397
Professional services and financing costs	100		100
General and administrative expenses	889		889
Loss on sale of real estate owned	1,088		1,088
Provision for loan losses (Note 2)	(5,487)		(5,487)
Total operating expenses	70,311	-	70,311
Net operating income	8,394	-	8,394
NON-OPERATING EXPENSES:			
Loss on early extinguishment of debt (Note 3)	1,573	-	1,573
Total non-operating expenses	1,573	-	1,573
Increase in net assets	6,821	-	6,821
NET ASSETS, BEGINNING OF YEAR	149,325	-	149,325
NET ASSETS, END OF YEAR	\$ 156,146	\$ -	\$ 156,146

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Detailed Statements of Net Assets - Multi-Family Housing Component

(in thousands)
 As of June 30, 2004 and 2003

	2004					2003	
	General Housing Loan Bond Funds	1983-A Highview Terrace	1985-I Roger Gardens	1991-I	1995	Total	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents (Note 4)	\$ 6,730	\$ 298		\$ 7	\$ 52,859	\$ 59,894	\$ 79,986
Investments, substantially restricted (Note 4)	20,618	3		78	50,471	71,089	30,541
Accrued interest receivable on investments	3,419	38		1,878	924	1,005	1,050
Mortgage loans receivable - net (Note 5)					34,660	39,995	35,836
Other assets					575	575	250
Total current assets	30,767	339		1,963	139,489	172,558	147,663
NON-CURRENT ASSETS:							
Investments, substantially restricted (Note 4)	644	173		7,765	225,702	234,284	177,483
Mortgage loans receivable - net (Note 5)	65,399	2,657		118,083	798,903	985,042	996,138
Debt service arrears receivable - net (Note 6)	9			1,117	1,117	1,126	1,023
Deferred charges - bond issuance costs - net				8,179	8,179	8,179	7,290
Deferred economic loss on defeasance of bonds				11,518	11,518	11,518	12,394
Total non-current assets	66,052	2,830		125,848	1,045,419	1,240,149	1,194,328
TOTAL ASSETS	96,819	3,169		127,811	1,184,908	1,412,707	1,341,991
LIABILITIES							
CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	4,440	40		1,890	39,780	46,150	44,693
Accrued interest payable on bonds and obligations	684	49		1,469	7,495	9,697	10,072
Advances from the State of New Jersey for bond and housing assistance	1,779					1,779	
Mortgagor escrow deposits (Note 11)	7,584					7,584	7,494
Total current liabilities	14,487	89		3,359	47,275	65,210	64,038
NON-CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	71,565	2,775		124,255	1,059,608	1,258,203	1,190,946
Minimum escrow requirement	613	26			8,284	8,923	8,653
Funds held in trust for mortgagors (Note 10)	5,265	18			3,930	9,195	9,369
Other non-current liabilities		348			2,131	2,149	1,289
Due to HUD	150			3	2,905	348	351
Due to other funds						3,058	3,659
Total non-current liabilities	77,593	3,167		124,258	1,076,858	1,281,876	1,214,277
TOTAL LIABILITIES	92,080	3,256		127,617	1,124,133	1,347,086	1,278,315
NET ASSETS (Note 13):							
Restricted under bond and obligation resolutions	4,739	(87)		194	60,775	65,621	63,676
TOTAL NET ASSETS	4,739	(87)		194	60,775	65,621	63,676

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
Detailed Statements of Net Assets - Multi-Family Housing Component

(In thousands)

As of June 30, 2004 and 2003

	2003						Total
	General Housing Loan Funds	1983-A Highview Terrace	1985-I Roger Gardens	1991-I	1991-A&B, 1991-ASB and 1992-ASB	Rental Housing Revenue Bonds	
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents (Note 4)	\$ 6,674	\$ 292	\$	\$ 5		\$	\$ 79,986
Investments, substantially restricted (Note 4)	30,112						30,541
Accrued interest receivable on investments		3	\$ 18	81			1,050
Mortgage loans receivable - net (Note 5)	3,247	34	60	1,752			35,836
Other assets							250
Total current assets	40,033	329	78	1,838			147,653
NON-CURRENT ASSETS:							
Investments, substantially restricted (Note 4)	672	173	1,121	7,790			177,483
Mortgage loans receivable - net (Note 5)	68,818	2,695	4,830	119,960			996,138
Debt service arrears receivable - net (Note 6)	3						1,023
Deferred charges - bond issuance costs - net							7,280
Deferred economic loss on defeasance of bonds							12,394
Total non-current assets	69,493	2,868	5,951	127,750			988,266
TOTAL ASSETS	109,526	3,197	6,029	129,588			1,341,919
LIABILITIES							
CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	4,210	35	83	1,770			44,693
Accrued interest payable on bonds and obligations	799	50		1,488			10,072
Advances from the State of New Jersey for bond and housing assistance	1,779						1,779
Mortgagor escrow deposits (Note 11)	7,494						7,494
Total current liabilities	14,282	85	83	3,258			64,038
NON-CURRENT LIABILITIES:							
Bonds and obligations - net (Note 9)	83,980	2,815	4,796	128,145			1,190,946
Minimum escrow requirement	613	26					8,053
Funds held in trust for mortgagors (Note 10)	5,265	17					4,104
Other non-current liabilities		351		3			1,272
Due to HUD							351
Due to other funds							3,669
Total non-current liabilities	90,341	3,209	4,796	128,148			989,783
TOTAL LIABILITIES	104,623	3,294	4,879	129,406			1,276,315
NET ASSETS (Note 13):							
Restricted under bond and obligation resolutions	4,903	(97)	1,150	182			57,538
TOTAL NET ASSETS	\$ 4,903	\$ (97)	\$ 1,150	\$ 182	\$	\$	\$ 57,538

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Detailed Statements of Revenues, Expenses, and Changes in Net Assets - Multi-Family Housing Component
 (in thousands)

For the Fiscal Years Ended June 30, 2004 and 2003

	2004					1995	Total	2003 Total
	General Housing Loan Bond Funds	1983-A Highview Terrace	1985-I Roger Gardens	1991-I	Total			
OPERATING REVENUES:								
Interest income on mortgage loans	\$ 3,923	\$ 282	\$ 484	\$ 8,452	\$ 69,427	\$ 82,568	\$ 83,370	
Investment income	162	22	137	584	4,121	5,026	7,739	
Fees and charges	796			135	6,635	7,566	6,769	
Other income - net	5		29		15	49	346	
Total operating revenues	4,886	304	650	9,171	80,198	95,209	98,224	
OPERATING EXPENSES:								
Interest	4,333	294	528	8,881	49,108	63,144	67,642	
Insurance costs					1,187	1,187	837	
Servicing fees and other				278	13	291	290	
Salaries and related benefits	367				3,101	3,488	3,871	
Professional services and financing costs	41		2		283	326	451	
General and administrative expenses	205				1,413	1,618	1,557	
Provision for loan losses (Note 2)	84				20,779	20,863	25,222	
Total operating expenses	5,050	294	530	9,159	75,884	90,917	99,870	
Net operating income (loss)	(164)	10	120	12	4,314	4,292	(1,646)	
NON-OPERATING EXPENSES:								
Loss on early extinguishment of debt (Note 3)					201	201	217	
Amortization of economic loss on defeasance of bonds					876	876	871	
Total non-operating expenses					1,077	1,077	1,088	
NON-OPERATING TRANSFERS								
Increase (decrease) in net assets	(164)	10	(1,150)	12	3,237	1,945	(39,688)	
NET ASSETS, BEGINNING OF YEAR	4,903	(97)	1,150	182	57,538	63,676	103,364	
NET ASSETS, END OF YEAR	\$ 4,739	\$ (87)	\$	\$ 194	\$ 60,775	\$ 65,621	\$ 63,676	

(Continued)

NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY
 Detailed Statements of Revenues, Expenses, and Changes in Net Assets - Multi-Family Housing Component
 (in thousands)
 For the Fiscal Years Ended June 30, 2004 and 2003

	2003						Total
	General Housing Loan Funds	1983-A Highview Terrace	1985-I Roger Gardens	1991-I	1981-A&B, 1991-AS8 and 1992-AS8	Rental Housing Revenue Bonds	
OPERATING REVENUES:							
Interest income on mortgage loans	\$ 4,501	\$ 285	\$ 490	\$ 8,570	\$ (1,211)	\$ 230	\$ 66,905
Investment income	257		102	586	193	245	7,739
Fees and charges	859			135	13	14	5,346
Other income - net	180					(15)	181
Total operating revenues	5,797	285	592	9,291	(1,005)	474	78,055
OPERATING EXPENSES:							
Interest							
Insurance costs	4,864	297	532	8,991	291	615	46,734
Servicing fees and other				278			837
Salaries and related benefits	602						12
Professional services and financing costs	115						3,269
General and administrative expenses	252	1				1	336
Provision for loan losses (Note 2)	(71)						1,301
Total operating expenses	5,762	298	532	9,269	291	616	77,782
Net operating income (loss)	35	(13)	60	22	(1,296)	(142)	273
NON-OPERATING EXPENSES:							
Loss on early extinguishment of debt (Note 3)							217
Amortization of economic loss on defeasance of bonds							871
Total non-operating expenses							1,088
NON-OPERATING TRANSFERS							
Increase (decrease) in net assets	35	(13)	60	22	(11,889)	(24,957)	30,050
NET ASSETS, BEGINNING OF YEAR	4,868	(84)	1,090	160	11,889	24,957	27,488
NET ASSETS, END OF YEAR	\$ 4,903	\$ (97)	\$ 1,150	\$ 182	\$ -	\$ -	\$ 57,538

