

**NEW JERSEY HOUSING AND  
MORTGAGE FINANCE AGENCY  
Trenton, New Jersey**

**FINANCIAL STATEMENTS  
December 31, 2012  
(With Comparative Information  
for December 31, 2011)**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
New Jersey Housing and Mortgage Finance Agency  
Trenton, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the New Jersey Housing and Mortgage Finance Agency (the Agency), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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 aggregate discretely presented component units of the Agency as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

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 Schedules of Net Position and Revenues, Expenses, and Changes in Fund Net Position for the Single Family and Multi-Family Housing Programs (the Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2013 on our consideration of the Agency’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency’s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
May 21, 2013

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**Introduction to the Financial Report**

This financial report consists of five parts: Management's Discussion and Analysis, Financial Statements, Notes to the Financial Statements, Required Supplemental Information and Supplemental Information. The New Jersey Housing and Mortgage Finance Agency (NJHMFA or Agency), as referred to throughout the Management's Discussion and Analysis, is for financial reporting purposes, the primary government.

**The Financial Statements include**

The Statement of Net Position which 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 Position which accounts for all of the current year's revenue and expenses, measures 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 which 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.

Information about any other events or developing situations that could materially affect the Agency's financial position.

**Required Supplementary Information**

Presents the information regarding the Agency's progress in funding its obligation to provide postemployment benefits other than pensions to its employees.

**Supplemental Information**

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

**Management's Discussion and Analysis**

This section of the Agency's financial statements, the Management's Discussion and Analysis (MD&A), presents an overview of the Agency's financial performance for the years ended December 31, 2012 and 2011. 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.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**The Agency's Business**

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

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

**Overall Financial Highlights – Year Ended December 31, 2012**

In 2012 the Agency took Deeds in Lieu of Foreclosure for two multifamily developments with mortgages held under the Multi Family Housing Revenue Bond Resolution and the General Fund. These were recorded as Real Estate Owned (REO) with an offset to the provision for loan loss. As a result, the multifamily housing component recorded a net recovery of \$19.4 million in the provision for loan loss. At December 31, 2012 Whitlock Mills has an appraised value of \$44.6 million with \$37.9 million recorded in the Multi-Family Housing Revenue Bond resolution and \$6.7 million recorded in the General Fund. Paragon Village is valued at \$14.8 million with \$9.5 million recorded in the Multi-Family Housing Revenue Bond resolution and \$5.3 million recorded in the General Fund.

The Agency had an overall increase in net assets of about 1%. This modest increase is due to the recoveries of prior loan losses recorded on the Whitlock Mills and Paragon Village developments.

The single family mortgage component recorded a recovery of prior loan reserves of \$5.3 million in the provision for loan losses. This is a result of the beginning of the stabilization of the single family housing market, the commencement of processing of foreclosures through the NJ court system, and less aggressive reserves recorded for 2012.

Single Family loan production decreased 21% as 693 loans were funded in 2012 compared to 888 in 2011. Despite the decrease in single family loan production, the overall mortgage loans outstanding were only modestly lower in 2012 versus 2011 levels, with a 2.4% decrease in mortgage receivable, as new production nearly offset runoff.

The Agency gained market acceptance of its Conduit Bond Financing Program in 2012 with the issuance of \$65.7 million of conduit bonds, funding the construction, rehabilitation and/or preservation of 675 multi-family units.

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In 2012, the Agency received \$77.5 million in U.S. Department of Treasury Hardest Hit Funds and closed 2,005 loans under this program. These are recorded as program income and program expense in the Agency's General Fund.

In February 2012, Moody's confirmed its Aa2 rating on the Single Family Housing Revenue Bonds resolution, and upgraded the Outlook from "Rating Under Review" for possible downgrade to "Negative."

In March 2012, Standard & Poor's Rating Services (S&P) affirmed its AA (stable outlook) rating on the Agency's Single Family Housing Revenue Bonds (HRB) resolution.

In June 2012, the Agency issued \$93.2 million of Multi-Family Revenue Bonds to finance 15 rental housing developments containing a total of 1,080 multifamily units.

In August 2012, the Agency novated (i.e. transferred) one (1) interest rate swap totaling \$38.6 million (which is used to synthetically fix the Agency's cost of funds on the SF 2005 Series P, Q, R variable rate bonds) from UBS AG to The Bank of New York Mellon, at no economic cost to the Agency. This improved the Agency's counterparty credit profile on the transaction from A2/A (Moody's/S&P) to Aa1/AA-.

In September 2012, Standard & Poor's Rating Services (S&P) affirmed its AA (stable outlook) issuer credit rating (ICR) on the Agency.

In October 2012, Standard & Poor's Rating Services (S&P) affirmed its A+ (stable outlook) rating on the Agency's Multi-Family Housing Revenue Bonds (MF 1995) resolution.

In October 2012, the Agency amended two (2) Multi-Family interest rate swaps totaling \$102.3 million with Bank of America to substitute the guarantor to the higher-rated Merrill Lynch Derivative Products (MLDP) entity, at no economic cost to the Agency. This improved the Agency's counterparty credit profile on the transaction from A3/A (Moody's/S&P) to Aa3/AAA.

In October 2012, the Agency amended three (3) Multi-Family interest rate swaps totaling \$64.3 million with Merrill Lynch Capital Services, Inc. to substitute the guarantor to the higher-rated Merrill Lynch Derivative Products (MLDP) entity, at no economic cost to the Agency. This improved the Agency's counterparty credit profile on the transaction from a Baa2/A- (Moody's/S&P) to Aa3/AAA.

The Agency has liquidity facilities in place with multiple providers in order to provide liquidity support for the payment of its variable rate bonds in the event that they cannot be remarketed. As of January 1, 2012, the Agency had total variable rate bonds outstanding in the amount of \$347.6 million (excluding bond maturities scheduled to occur in 2012) whose related liquidity facilities were scheduled to expire in 2012. The Agency successfully resolved its entire 2012 liquidity expiration exposure of \$347.6 million by taking the following actions:

- March 2012 - Replaced \$100.2 million SF liquidity facility with new provider (Barclays Bank PLC).
- May 2012 - Replaced \$24.6 million SF liquidity facility with new provider (TD Bank, N.A.).

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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- November 2012 - Replaced \$36.4 million MF liquidity facility with new provider (Bank of New York Mellon) and replaced a \$25.9 million MF liquidity facility set to expire in March 2013 with a new provider (Bank of New York Mellon).
- Throughout 2012 - Extended \$186.5 million MF liquidity facility with current provider (Dexia).

**Overall Financial Highlights – Year Ended December 31, 2011**

Standard and Poors (S&P) reaffirmed the Agency's AA rating with a stable outlook on July 5, 2011.

The Agency contributed \$9 million of unencumbered reserves to the State's General Fund for appropriation to the Department of Community Affairs for the State Rental Assistance Program, which provides rental assistance for low-income individuals.

The Agency's Annual Required Contribution (ARC) for Other Postemployment Benefits (OPEB) increased by \$14.2 million in 2011 compared to \$2.3 million in 2010 as a result of modifications to the actuarial assumptions used for the 2011 valuation. The adjustments were primarily in response to (1) the Healthcare Reform Excise tax, (2) the change to the Society of Actuaries' Getzen model, resulting in increased expense assumptions from year to year, and (3) a change in rates of retirement as a result of New Jersey Pension and Benefit Reform. This also accounts for the corresponding increase in salaries and related benefits expense.

The Agency had an overall decrease in net position of 5.8% primarily due to the increase in OPEB liability, contribution to the State of New Jersey, and an increase in the reserve for loan loss.

Single Family loan production increased 30% as 888 loans were funded in 2011 compared to 679 in 2010.

Total overall mortgage loans outstanding were relatively flat from 2010 levels as new production offset runoff.

In September 2010, the U.S. Treasury Department awarded the Agency a total of \$300.6 million from its Hardest Hit Fund (HHF) to be used for programs developed by the Agency that assist homeowners in danger of foreclosure. The awarded amount and any recycled funds are to be used through December 31, 2017. Of the total awarded amount, \$112.2 million must be used for assistance to eligible borrowers who are in danger of foreclosure as a direct result of unemployment or underemployment; \$38.6 million is for administrative costs through December 31, 2017; the balance, \$149.8 million, may be used for additional unemployment and/or underemployment-related assistance or for other Treasury-approved HHF programs that the Agency may develop. The Agency received the first advance of \$7.5 million in 2011 and closed 85 loans.

In July 2011 the Agency released \$152.4 million of Single Family Home Mortgage Bonds from escrow under the US Treasury's New Issue Bond Program (NIBP), \$45.7 million of which was used to refund a portion of the Agency's SF HRB Resolution 2004 Series I Bonds while \$106.7 million was used to fund new single family loans. Also in July 2011 the Agency issued \$101.6 million of Single Family Home Mortgage Bonds under the



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NIBP (market bonds) to fund the purchase of loans made to first-time home buyers for single family residences.

In December 2011 the Agency released \$156.2 million of Single Family Home Mortgage Bonds from escrow under the U.S. Treasury's NIBP, \$59.3 million of which was used to refund a portion of the Agency's SF HRB Resolution 2005 Series O and Q Bonds, while \$96.9 million was used to fund single family loans. The Agency issued \$104.2 million Single Family Home Mortgage Bonds under the NIBP (market bonds), \$31.1 million of which was used to refund the Agency's SF HBP Resolution 2000 Series BB and CC Bonds, and \$73.1 million of Single Family Home Mortgage Bonds were used to fund the purchase of loans made to first-time home buyers for single family residences.

The Agency reduced its variable rate debt exposure during fiscal year 2011 by 13.5% as a result of the above mentioned variable rate bond refunding and scheduled bond maturities.

The Single Family provision for loan loss expense increased \$13.0 million as a result of increased delinquencies and the inability to process foreclosures due to the State of New Jersey's 2010 administrative order, which discontinued residential foreclosure activity in the state for a 12 month period. Since it was lifted in 2011 the Agency resumed its foreclosure proceedings and estimates the processing time per foreclosure to be approximately 300 days.

The Multi Family provision for loan loss expense increased \$13.6 million primarily due to Whitlock Mills mortgage being fully reserved.

As of January 1, 2011, the Agency had total variable rate bonds outstanding in the amount of \$633.6 million (excluding bond maturities scheduled to occur in 2011) whose related liquidity facilities were scheduled to expire in 2011. The Agency successfully resolved its entire 2011 liquidity expiration exposure of \$633.6 million by taking the following actions during 2011:

*July 2011* - Refunded \$45.7 million of SF variable rate bonds to fixed rate bonds

*August 2011* - Renewed \$177.9 million MF liquidity facility with current provider (Bank of America)

*August 2011* - Extended \$195.4 million MF liquidity facility with current provider (Dexia)

*October 2011* - Replaced \$135.5 million SF liquidity facility with new provider (Royal Bank of Canada)

*November 2011* - Renewed \$79.1 million SF liquidity facility with current provider (TD Bank)

Additionally, during 2011, the Agency received proposals from several liquidity providers to provide replacement liquidity facilities for several of the Agency's SF liquidity facilities that are scheduled to expire in 2012.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**Overview of the Financial Statements**

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

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

**Financial Analysis**

The following sections will discuss the Agency's financial results for 2012 compared to 2011. Additionally, an examination of major economic factors that have contributed to the Agency's operations is provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Agency's financial statements, which are presented in accordance with accounting principles generally accepted in the United States. All dollar amounts are in thousands.

**NJHMFA's Assets and Liabilities**

The Statement of Net Position in the financial statements present the Agency's assets, liabilities, and net position as of December 31, 2012. The following table represents the comparison of net position as of December 31, 2012, 2011 and 2010. The change between December 31, 2012 and December 31, 2011 should be read in conjunction with the financial statements.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**Condensed Statement of Net Position  
(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>	
				<u>2012/2011</u>	<u>2011/2010</u>
Current and other assets	\$ 969,153	\$ 1,061,668	\$ 855,032	-8.7%	24.2%
Other noncurrent assets	3,281,387	3,304,017	3,370,345	-0.7%	-2.0%
Capital assets	10,041	10,730	11,289	-6.4%	-5.0%
Total assets	<u>4,260,581</u>	<u>4,376,415</u>	<u>4,236,666</u>	-2.6%	3.3%
Deferred outflows	<u>21,730</u>	<u>23,384</u>	<u>25,508</u>	0.0%	0.0%
Current liabilities	380,774	382,997	350,120	-0.6%	9.4%
Long-term liabilities	<u>2,973,000</u>	<u>3,095,272</u>	<u>2,932,632</u>	-4.0%	5.5%
Total liabilities	<u>3,353,774</u>	<u>3,478,269</u>	<u>3,282,752</u>	-3.6%	6.0%
Deferred Inflows	<u>21,730</u>	<u>23,384</u>	<u>26,578</u>	0.0%	0.0%
Net position:					
Invested in capital assets, net of related debt	10,041	10,730	11,289	-6.4%	-5.0%
Restricted	393,164	382,722	426,085	2.7%	-10.2%
Unrestricted	<u>503,602</u>	<u>504,694</u>	<u>516,540</u>	-0.2%	-2.3%
<b>Total net position</b>	<u>\$ 906,807</u>	<u>\$ 898,146</u>	<u>\$ 953,914</u>	1.0%	-5.8%

The Agency's overall 1% increase in net assets, although relatively flat, is primarily due to the recovery of prior loan losses by taking deeds in lieu of foreclosure for two multifamily projects and recording them as Real Estate Owned (REO). The Agency's core operations remained stable with only slight decreases in assets and liabilities.

**NJHMFA's Revenues and Expenses**

The Statements of Revenues, Expenses and Changes in Net Position reports revenues recognized and expenses incurred for the years ended December 31, 2012, 2011, and 2010. The table below summarizes the Agency's revenues and expenses for the years ended December 31, 2012, 2011 and 2010. It should be read in conjunction with the financial statements.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**Condensed Statements of Revenues, Expenses and Changes in Net Position  
for the Years Ended December 31, 2012, 2011 and 2010  
(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012/2011</u>	<u>2011/2010</u>
Operating revenues:					
Interest income on mortgage loans	\$ 148,582	\$ 155,883	\$ 159,511	-4.7%	-2.3%
Fees and charges	33,363	31,196	33,836	6.9%	-7.8%
Other	64,555	74,512	131,820	-13.4%	-43.5%
	<u>246,500</u>	<u>261,591</u>	<u>325,167</u>	-5.8%	-19.6%
Operating expenses	<u>251,138</u>	<u>325,726</u>	<u>366,209</u>	-22.9%	-11.1%
Operating loss	(4,638)	(64,135)	(41,042)	-92.8%	56.3%
Non-operating revenues, net	<u>13,299</u>	<u>7,889</u>	<u>17,935</u>	68.6%	-56.0%
(Decrease) increase in net position	8,661	(56,246)	(23,107)	-115.4%	143.4%
Total net position- beginning of year	<u>898,146</u>	<u>953,530</u>	<u>976,677</u>	-5.8%	-2.4%
<b>Total net position - end of year</b>	<u>\$ 906,807</u>	<u>\$ 897,284</u>	<u>\$ 953,570</u>	1.1%	-5.9%

**Summary of Operating Expenses for the Years Ended  
December 31, 2012, 2011 and 2010  
(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>	
				<u>2012/2011</u>	<u>2011/2010</u>
Operating expenses:					
Interest	\$ 131,562	\$ 130,250	\$ 127,893	1.0%	1.8%
Insurance costs	1,009	1,053	1,064	-4.2%	-1.0%
Servicing fees and other	4,972	5,224	5,239	-4.8%	-0.3%
Salaries and related benefits	28,223	41,101	26,736	-31.3%	53.7%
Professional services and financing costs	5,299	3,481	1,899	52.2%	83.3%
General and administrative expenses	9,848	8,192	7,831	20.2%	4.6%
Grant expense	45,127	82,872	147,924	-45.5%	-44.0%
Program expense	26,210				
Provision for loan losses	<u>(1,112)</u>	<u>53,553</u>	<u>47,623</u>	-102.1%	12.5%
<b>Total operating expenses</b>	<u>\$ 251,138</u>	<u>\$ 325,726</u>	<u>\$ 366,209</u>	-22.9%	-11.1%

The 92.8% decrease in operating loss is primarily due to the recovery of prior loan losses by taking deeds in lieu of foreclosure for two multifamily projects which had been fully written off in prior years.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**Debt Administration**

At December 31, 2012, the Agency had \$2.6 billion of bond principal outstanding, net of deferral on refunding, discount and premium, a decrease of 5.5% over the prior year. The following table summarizes the Agency's bonds payable outstanding at December 31, 2012, 2011 and 2010, and the changes in bonds payable. Dollars are in thousands.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>	
				<u>2012/2011</u>	<u>2011/2010</u>
Bonds payable, net	\$ 2,553,804	\$ 2,703,831	\$ 2,502,834	-5.5%	8.0%

Additional information about the Agency's debt is presented in Note 8 of the financial statements.

**Single Family Programs**

The Agency provides a variety of residential mortgage financing programs that primarily serve low to moderate and middle-income first time homebuyers and homebuyers purchasing in certain designated urban areas. For the most part, the programs are funded with Mortgage Revenue Bond proceeds. The Agency issued bonds in December 2011 and therefore did not need to issue additional bonds in 2012.

**Multi-Family Programs**

The Agency issued \$93.2 million of Multi-Family Revenue Bonds in June 2012 to finance 15 multifamily rental housing developments creating 1,080 housing units.

**Contacting The Agency's Financial Management**

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

## **BASIC FINANCIAL STATEMENTS**

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**STATEMENT OF NET POSITION**  
**December 31, 2012**  
**(With Comparative Summarized Financial Information as of December 31, 2011)**  
**(In Thousands)**

	Primary Government							Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component			General Fund	Subtotal	STAR Corporation	ABC Corporation	
<b>CURRENT ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ 32,671	\$ 32,671	\$ 559	\$ 253	\$ -	\$ 33,483	\$ 21,827
Restricted cash and cash equivalents	209,969	92,285	475,174	777,428	-	-	-	777,428	894,612
Investments	-	15,329	16,028	31,357	-	-	-	31,357	18,276
Restricted investments	-	-	-	-	-	-	-	-	14,719
Accrued interest receivable on investments	585	987	1,782	3,354	-	-	-	3,354	3,880
Mortgage loans receivable, net	30,627	76,351	4,191	111,169	-	-	-	111,169	98,075
Supplemental mortgages and other loans, net	-	96	1,588	1,684	-	-	-	1,684	-
Fees and other charges receivable	-	-	972	972	-	-	-	972	1,689
Due from loan services and insurers	3,356	-	82	3,438	-	-	-	3,438	1,725
Interfund allocation	-	-	5,690	5,690	-	-	(5,690)	-	-
Other assets	-	140	1,250	1,390	-	-	-	1,390	1,624
<b>Total current assets</b>	<b>244,537</b>	<b>185,188</b>	<b>539,428</b>	<b>969,153</b>	<b>559</b>	<b>253</b>	<b>(5,690)</b>	<b>964,275</b>	<b>1,056,427</b>
<b>NONCURRENT ASSETS</b>									
Investments	-	-	261,182	261,182	-	-	-	261,182	254,953
Restricted investments	59,407	133,637	18,783	211,827	-	-	-	211,827	216,656
Mortgage loans receivable, net	1,275,246	929,991	179,382	2,384,619	-	176	(1,770)	2,383,025	2,459,540
Debt service arrears receivable, net	16,959	1,790	124	18,873	-	-	-	18,873	10,312
Interest receivable on construction advances and mortgages	-	-	1,675	1,675	-	-	-	1,675	1,675
Supplemental mortgages and other loans, net	16,110	48,247	236,731	301,088	-	-	-	301,088	318,002
Deferred bond issuance costs, net	7,979	6,153	-	14,132	-	-	-	14,132	15,293
Real estate owned	18,955	47,386	13,263	79,604	-	-	-	79,604	1,666
Real estate held for redevelopment	-	-	-	-	-	113	-	113	826
Capital assets, net	-	-	10,041	10,041	120	-	-	10,161	10,850
Due from other funds	-	123	8,264	8,387	-	(176)	(8,211)	-	766
<b>Total non-current assets</b>	<b>1,394,656</b>	<b>1,167,327</b>	<b>729,445</b>	<b>3,291,428</b>	<b>120</b>	<b>113</b>	<b>(9,981)</b>	<b>3,281,680</b>	<b>3,290,539</b>
<b>TOTAL ASSETS</b>	<b>1,639,193</b>	<b>1,352,515</b>	<b>1,268,873</b>	<b>4,260,581</b>	<b>679</b>	<b>366</b>	<b>(15,671)</b>	<b>4,245,955</b>	<b>4,346,966</b>
<b>DEFERRED OUTFLOWS</b>									
Interest rate swaps	3,088	18,642	-	21,730	-	-	-	21,730	23,384

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**December 31, 2012**  
**(With Comparative Summarized Financial Information as of December 31, 2011)**  
*(In Thousands)*

	Primary Government							Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component			General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations
<b>CURRENT LIABILITIES</b>									
Bonds and obligations, net	\$ 33,630	\$ 66,955	\$ -	\$ 100,585	\$ -	\$ -	\$ -	\$ 100,585	\$ 101,605
Accrued interest payable on bonds and obligations	14,793	9,195	-	23,988	-	-	-	23,988	25,804
Subsidy payments received in advance	-	-	3,158	3,158	-	-	-	3,158	3,142
Advances from State of NJ for bond and housing assistance	-	-	20,513	20,513	-	-	-	20,513	20,828
Due to the State of New Jersey									
Other current liabilities	4,193	355	4,375	8,923	351	68	-	9,342	6,206
Interfund allocation	2,033	3,657	-	5,690	-	-	(5,690)	-	-
Mortgagor escrow deposits	-	4,094	213,823	217,917	-	-	-	217,917	219,956
<b>Total current liabilities</b>	<b>54,649</b>	<b>84,256</b>	<b>241,869</b>	<b>380,774</b>	<b>351</b>	<b>68</b>	<b>(5,690)</b>	<b>375,503</b>	<b>377,541</b>
<b>NONCURRENT LIABILITIES</b>									
Bonds and obligations, net	1,412,461	1,040,758	-	2,453,219	-	-	-	2,453,219	2,602,226
Minimum escrow requirement	-	8,774	1,027	9,801	-	-	-	9,801	9,930
Funds held in trust for mortgagors	-	39,226	325,984	365,210	-	3	-	365,213	367,448
Unearned revenues	-	-	63,812	63,812	-	-	-	63,812	22,762
Other non-current liabilities	-	2,115	18,902	21,017	-	-	-	21,017	20,983
OPEB liability	-	-	51,730	51,730	-	-	-	51,730	48,026
Due to other funds	-	889	7,322	8,211	1,770	-	(9,981)	-	766
<b>Total noncurrent liabilities</b>	<b>1,412,461</b>	<b>1,091,762</b>	<b>468,777</b>	<b>2,973,000</b>	<b>1,770</b>	<b>3</b>	<b>(9,981)</b>	<b>2,964,792</b>	<b>3,072,141</b>
<b>Total liabilities</b>	<b>1,467,110</b>	<b>1,176,018</b>	<b>710,646</b>	<b>3,353,774</b>	<b>2,121</b>	<b>71</b>	<b>(15,671)</b>	<b>3,340,295</b>	<b>3,449,682</b>
<b>DEFERRED INFLOWS</b>									
Interest rate swaps	3,088	18,642	-	21,730	-	-	-	21,730	23,384
<b>NET POSITION (DEFICIT)</b>									
Invested in capital assets	-	-	10,041	10,041	120	-	-	10,161	10,850
Restricted under bond and obligation resolutions	172,083	176,497	-	348,580	-	-	-	348,580	315,257
Restricted for Special Needs Housing	-	-	44,584	44,584	-	-	-	44,584	-
Restricted for Redevelopment	-	-	-	-	(1,692)	830	-	(862)	65,849
Unrestricted	-	-	503,602	503,602	130	(535)	-	503,197	505,328
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ 172,083</b>	<b>\$ 176,497</b>	<b>\$ 558,227</b>	<b>\$ 906,807</b>	<b>\$ (1,442)</b>	<b>\$ 295</b>	<b>\$ -</b>	<b>\$ 905,660</b>	<b>\$ 897,284</b>

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



**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Year Ended December 31, 2012**  
**(With Comparative Summarized Financial Information for the Year Ended December 31, 2011)**  
*(In Thousands)*

	Primary Government				Discretely Presented			Reporting Entity	
	Bonds and Obligation Funds		General	Subtotal	Component Units		Eliminations	2012	2011
	Single-Family	Multi-Family			STAR	ABC			
	Mortgage	Housing	Fund			Corporation	Corporation		
Component	Component			Corporation	Corporation				
<b>OPERATING REVENUES</b>									
Interest income on mortgage loans	\$ 71,158	\$ 70,150	\$ 7,274	\$ 148,582	\$ -	\$ -	\$ -	\$ 148,582	\$ 155,883
Fees and charges	-	7,257	26,106	33,363	-	-	-	33,363	31,196
Program income	-	-	33,887	33,887	-	-	-	33,887	-
Grant income	-	-	28,392	28,392	-	18	-	28,410	-
Other income - net	86	1,443	747	2,276	543	-	-	2,819	74,512
Total operating revenues	<u>71,244</u>	<u>78,850</u>	<u>96,406</u>	<u>246,500</u>	<u>543</u>	<u>18</u>	<u>-</u>	<u>247,061</u>	<u>261,591</u>
<b>OPERATING EXPENSES</b>									
Interest and amortization of bond premium and discounts	65,623	65,522	417	131,562	-	-	-	131,562	130,250
Insurance costs	-	486	523	1,009	-	-	-	1,009	1,053
Servicing fees and other	4,664	270	38	4,972	-	-	-	4,972	5,224
Salaries and related benefits	3,246	5,010	19,967	28,223	-	-	-	28,223	41,101
Professional services and financing costs	924	945	3,430	5,299	-	-	-	5,299	3,481
General and administrative expenses	836	1,237	7,775	9,848	293	553	-	10,694	8,132
Other expenses	-	-	-	-	-	-	-	-	60
Grant expense	-	-	45,127	45,127	-	-	-	45,127	82,872
Program expense	-	-	26,210	26,210	-	-	-	26,210	-
Provision for loan losses	(5,337)	(19,358)	23,583	(1,112)	-	-	-	(1,112)	53,553
Total operating expenses	<u>69,956</u>	<u>54,112</u>	<u>127,070</u>	<u>251,138</u>	<u>293</u>	<u>553</u>	<u>-</u>	<u>251,984</u>	<u>325,726</u>
Operating income (loss)	<u>1,288</u>	<u>24,738</u>	<u>(30,664)</u>	<u>(4,638)</u>	<u>250</u>	<u>(535)</u>	<u>-</u>	<u>(4,923)</u>	<u>(64,135)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>									
Investment income	3,830	6,435	5,160	15,425	-	-	-	15,425	18,247
Payments to the State of New Jersey	-	-	-	-	-	-	-	-	(9,000)
Loss on sale of real estate owned	(1,563)	-	-	(1,563)	-	-	-	(1,563)	(776)
Loss on early extinguishment of old debt	(474)	(89)	-	(563)	-	-	-	(563)	(582)
Total nonoperating revenues, net	<u>1,793</u>	<u>6,346</u>	<u>5,160</u>	<u>13,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,299</u>	<u>7,889</u>
Income (loss) before transfers	3,081	31,084	(25,504)	8,661	250	(535)	-	8,376	(56,246)
<b>TRANSFERS</b>	<u>1</u>	<u>(843)</u>	<u>842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	3,082	30,241	(24,662)	8,661	250	(535)	-	8,376	(56,246)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>169,001</u>	<u>146,256</u>	<u>582,889</u>	<u>898,146</u>	<u>(1,692)</u>	<u>830</u>	<u>-</u>	<u>897,284</u>	<u>953,530</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 172,083</u>	<u>\$ 176,497</u>	<u>\$ 558,227</u>	<u>\$ 906,807</u>	<u>\$ (1,442)</u>	<u>\$ 295</u>	<u>\$ -</u>	<u>\$ 905,660</u>	<u>\$ 897,284</u>

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2012**  
**(With Comparative Summarized Financial Information for the Year Ended December 31, 2011)**  
*(In Thousands)*

	Primary Government				Discretely Presented				
	Bonds and Obligation Funds		General	Subtotal	Component Units		Reporting Entity		
	Single-Family	Multi-Family			STAR	ABC	2012	2011	
	Mortgage	Housing	Fund	Corporation	Corporation				
Component	Component								
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Receipts from interest on mortgages and loans	\$ 65,415	\$ 70,063	\$ 7,291	\$ 142,769	\$ -	\$ -	\$ 142,769	\$ 147,154	
Receipts from fees, charges and other	5,124	8,919	26,776	40,819	293	197	41,309	49,981	
Receipts from principal payments on mortgage receivables	176,960	96,434	106,433	379,827	-	-	379,827	499,650	
Payments to vendors and employees	(16,544)	(6,878)	(41,080)	(64,502)	(293)	(19)	(64,814)	(75,960)	
Payments to mortgage purchases and advances	(136,728)	(105,118)	(132,983)	(374,829)	-	-	(374,829)	(519,661)	
Payments for interest and amortization of bond premium and discounts	(67,149)	(64,107)	-	(131,256)	-	-	(131,256)	(129,694)	
(Payments) receipts for other	(24)	(1,794)	(3,704)	(5,522)	-	-	(5,522)	(15,566)	
Receipts (payments) for funds held in trust	-	(1,379)	45,560	44,181	-	-	44,181	16,897	
Net cash provided by (used in) operating activities	<u>27,054</u>	<u>(3,860)</u>	<u>8,293</u>	<u>31,487</u>	<u>-</u>	<u>178</u>	<u>31,665</u>	<u>(27,199)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>									
Receipts from proceeds of sale of bonds and obligations	-	80,770	-	80,770	-	-	80,770	514,285	
Payments for retirement of bonds	(132,375)	(98,820)	-	(231,195)	-	-	(231,195)	(315,830)	
Contributions	-	-	-	-	-	-	-	(9,000)	
Transfers and others	(2,671)	(1,282)	1,061	(2,892)	-	-	(2,892)	2,981	
Net cash provided by (used in) noncapital financing activities	<u>(135,046)</u>	<u>(19,332)</u>	<u>1,061</u>	<u>(153,317)</u>	<u>-</u>	<u>-</u>	<u>(153,317)</u>	<u>192,436</u>	
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>									
Additions to capital assets	-	-	(476)	(476)	-	-	(476)	(544)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Purchases of investments	(93,314)	(132,094)	(23,172)	(248,580)	-	-	(248,580)	(269,055)	
Sales/maturities of investments	90,183	139,306	16,430	245,919	-	-	245,919	264,465	
Earnings on investments	3,721	6,977	8,460	19,158	103	-	19,261	18,808	
Net cash provided by investing activities	<u>590</u>	<u>14,189</u>	<u>1,718</u>	<u>16,497</u>	<u>103</u>	<u>-</u>	<u>16,600</u>	<u>14,218</u>	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(107,402)</u>	<u>(9,003)</u>	<u>10,596</u>	<u>(105,809)</u>	<u>103</u>	<u>178</u>	<u>(105,528)</u>	<u>178,911</u>	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>317,371</u>	<u>101,288</u>	<u>497,249</u>	<u>915,908</u>	<u>456</u>	<u>75</u>	<u>916,439</u>	<u>737,528</u>	
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 209,969</u>	<u>\$ 92,285</u>	<u>\$ 507,845</u>	<u>\$ 810,099</u>	<u>\$ 559</u>	<u>\$ 253</u>	<u>\$ 810,911</u>	<u>\$ 916,439</u>	

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2012**  
**(With Comparative Summarized Financial Information for the Year Ended December 31, 2011)**  
*(In Thousands)*

	Primary Government				Discretely Presented			
	Bonds and Obligation Funds		General	Subtotal	Component Units			
	Single-Family	Multi-Family			STAR	ABC		
	Mortgage	Housing	Fund	Corporation	Corporation	Reporting Entity		
Component	Component				2012	2011		
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>								
Operating income (loss)	\$ 1,288	\$ 24,738	\$ (30,664)	\$ (4,638)	\$ 250	\$ (535)	\$ (4,923)	\$ (64,135)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation expense	-	-	1,011	1,011	-	-	1,011	1,103
Amortization of prem/disc, refunding costs, bond issue costs	53	960	-	1,013	-	-	1,013	1,013
Effects of changes in operating assets and liabilities:								
Loans, net	24,840	(27,886)	(4,076)	(7,122)	(250)	-	(7,372)	16,171
Fees and other charges receivable	-	-	717	717	-	-	717	2,201
Due from loan servicers and insurers	(1,706)	-	(7)	(1,713)	-	-	(1,713)	302
Deferred charges - bond issuance costs, net	1,688	1,054	-	2,742	-	-	2,742	(11,166)
Deferred outflow of resources	1,053	107	-	1,160	-	-	1,160	12,341
Other assets	-	15	219	234	-	713	947	(244)
Due to/from other funds	(380)	298	146	64	-	-	64	1
Accrued interest payable on bonds	(943)	(873)	-	(1,816)	-	-	(1,816)	(1,418)
Advance from the State of New Jersey	-	-	(315)	(315)	-	-	(315)	(395)
Funds held in trust for mortgagor	-	(694)	4,125	3,431	-	-	3,431	(5,851)
Minimum escrow requirement	(1,688)	(1,054)	-	(2,742)	-	-	(2,742)	208
Mortgagor escrow deposits	-	(180)	51	(129)	-	-	(129)	2,414
Subsidy payments received in advance	-	(515)	(1,524)	(2,039)	-	-	(2,039)	43
Unearned revenue	-	-	16	16	-	-	16	4,461
OPEB liability	-	-	35,384	35,384	-	-	35,384	14,175
Interest rate swap	-	-	3,704	3,704	-	-	3,704	(2,106)
Other liabilities	2,849	170	(494)	2,525	-	-	2,525	3,683
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 27,054</b>	<b>\$ (3,860)</b>	<b>\$ 8,293</b>	<b>\$ 31,487</b>	<b>\$ -</b>	<b>\$ 178</b>	<b>\$ 31,665</b>	<b>\$ (27,199)</b>

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Agency**

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

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

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

Certain bonds and other obligations issued under the provisions of the Act are general obligations of the Agency to which its full faith and credit are pledged. Certain mortgages issued from the proceeds of Multi-Family Housing Revenue Bonds are insured by the Federal Housing Administration. The Agency has no taxing power; however, certain bonds issued are separately secured, special and limited obligations of the Agency. See Note 8 to the financial statements for a more detailed discussion of the Agency's bonds, notes and obligations.

*Federal Subsidy Programs* – Many of the Agency-financed Multi-Family Housing projects (the projects) have entered into subsidy contracts with the U.S. Department of Housing and Urban Development (HUD) under Section 236 of the National Housing Act, as amended, or under Section 8 of the United States Housing Act of 1937, as amended (see Note 8). 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.

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.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Description of the Agency**

The Section 8 Housing Assistance Payments (HAP) received by the Projects amounted to approximately \$442,411 and \$435,139 for the years ended December 31, 2012 and 2011, 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 \$18,025 and \$18,258 for the years ended December 31, 2012 and 2011, respectively.

**Reporting Entity**

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

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

**STAR**

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity** (continued)

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

**ABC**

On April 17, 1997, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the A Better Camden Corporation (ABC). The Board consists of four State Directors and three Camden Directors as follows: The Commissioner of the New Jersey Department of Community Affairs, ex officio, or his or her designee; the Executive Director of the Agency, ex officio, or his or her designee; two employees of the Agency appointed by, and serving at the pleasure of the Executive Director of the Agency; the Mayor of the City of Camden, ex officio, or his or her designee; the Executive Director of the Camden Redevelopment Agency, ex officio, or his or her designee; and one resident of Camden appointed by a majority of the other directors to serve for a term of two years. ABC was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in Camden, particularly for persons of low and moderate income.

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

**Basis of Accounting**

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

The Agency is required to follow all statements of the GASB. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate FASB and AICPA guidance into GASB authoritative literature.

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Prior Year Comparative Financial Information**

The basic financial statements include certain prior year summarized comparative information that is not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**Descriptions of Funds**

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

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

*Multi-Family Program* – The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs. Assets under the bond resolution are restricted and are not available for any other purpose other than as provided.

*Single Family Program* – The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single-family residences for persons and families of low and moderate income. Assets under the bond resolution are restricted and are not available for any other purpose other than as provided.

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

**Cash and Cash Equivalents**

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

**Investments**

Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Therefore, United States Government and Agency securities, asset-backed securities, corporate notes and commercial paper are reported at fair value. The Agency's investment agreements are reported at an amount equal to principal and accrued interest.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets and Related Depreciation**

The Agency capitalizes all assets greater than \$500 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 Lives</u>
Buildings and building improvements	25
Motor vehicles	4
Machinery and equipment	4-10
Furniture and equipment	5

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

**Real Estate Owned**

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

**Funds and Deposits Held for Projects**

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

**Debt Issuance Costs, Bond Discount and Other Bond Related Costs**

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

**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.



**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. In addition, the Single Family home owners may face similar cash flow issues causing loans to become uncollectible. The Agency has provided allowances for loan losses aggregating \$496,980 and \$439,792 as of December 31, 2012 and 2011, respectively, 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 collectability 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 (see Note 8).

**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. The amount available for the program is \$3,081 as of December 31, 2012 and 2011 which is included in restricted cash and cash equivalents

**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.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows and Deferred Inflows**

State and local governments enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. Concepts Statement No. 4, *Elements of Financial Statements*, identifies those consumptions or acquisitions as *deferred outflows of resources* and *deferred inflows of resources*, respectively, and distinguishes them from assets and liabilities. As such, these transactions are reported supporting on the Statement of Net Position.

**Net Position**

Net position comprises the excess of revenues over expenses from operating income, non-operating revenues, expenses and capital contributions. Net position is classified in the following three components:

*Invested in Capital Assets* – This component of net position 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, if any.

*Restricted* – Net position is reported as restricted when constraints placed on net position 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 position consists of assets that do not meet the definition of restricted or invested in capital assets. This component includes assets that may be designated for specific purposes by the Board.

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

**Operating and Non-Operating Revenues and Expenses**

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

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interest Rate Swaps**

The Agency enters into various interest rate swaps in order to manage risks associated with interest on its bond portfolio.

**Tax Status**

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

**Reclassifications**

Certain reclassifications have been made to prior year summarized balances in order to conform to current year presentation. The reclassifications did not affect net position or changes therein.

**New Accounting Pronouncements**

In fiscal year 2012, the Agency implemented GASB Statements Nos. 61, 62, and 63 as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34 modifies certain requirements for inclusion of component units in the financial reporting entity. This includes the concept of financial burden or benefit on the relationship between the primary government and the component unit. The implementation of this new standard had no impact on the Agency's 2012 financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, APB, and AICPA guidance issued before November 30, 1989. The implementation of this new standard modified certain language in disclosures related to the applicable basis of accounting in the Agency's 2012 financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* revised the financial reporting for elements of the financial statements as a consumption or acquisition of net assets that are applicable to a future reporting period. These items are distinct from assets and liabilities. This statements also identifies net position. The implementation of this new standard revised the presentation in the financial statements for those items identified as deferred outflows and inflows and revised the names of the statements presented and certain classifications within those statements.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 2 – EARLY EXTINGUISHMENT OF DEBT**

During the years ended December 31, 2012 and 2011, as a result of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately \$134,055 and \$105,430, respectively. Net losses of \$563 and \$576 for the years ended December 31, 2012 and 2011, respectively, 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.

**NOTE 3 – INVESTMENTS AND DEPOSITS**

**Investment Policy – Agency General Fund**

The Agency has established an investment policy, which pertains to assets of the Agency such as the General Fund assets, which are held outside of the Agency's Bond Resolutions. The primary investment objectives of the Agency's investment activities are to preserve principal, meet liquidity needs, further purposes of the Agency and provide a suitable return in relationship to current market conditions and the established investment policy. The Agency's investment policy includes guidelines as to liquidity and duration, eligible investments, concentration limits, credit quality and currency. The Agency's General Fund cash and equivalents are managed by BlackRock pursuant to an agreement between the Agency and BlackRock. BlackRock has been instructed to follow the Agency's aforementioned investment policy.

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

**Investment Policy – Bond Resolutions**

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)**

**Custodial Credit Risk**

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

As of December 31, 2012, the Agency's bank balance amounted to \$243,051, of which \$169,899 was uninsured and uncollateralized.

**New Jersey Cash Management Fund and Bank of America Cash Management Fund**

During the year, the Agency invested certain funds in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants.

Investments with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The Fund does not have a credit rating. The Agency also utilizes Bank of America Cash Management Funds for certain project escrow accounts. These funds are invested in government securities and NJ municipal securities. At December 31, 2012 and 2011, the Agency's investment in Cash Management Funds amounted to \$566,030 and \$597,249, respectively.

**Investment Type and Interest Rate Risk Disclosure**

The Agency holds various investments, outside of the Bond Resolutions, within the Agency's General Fund. As discussed, these investments are currently managed by BlackRock. In addition to the eligible investments permitted by the Agency's Investment Policy discussed above, the aforementioned Investment Policy also permits corporate bonds, notes and medium term notes.

Also permitted are asset backed securities, mortgage backed securities and collateralized mortgage obligations, however, these securities must be rated AAA by at least one of the national rating agencies. Equity investments in project-specific housing and housing-related developments which further the purposes of the Agency are also permitted with approval from the Agency Board. However, these investments may not exceed \$10 million. Further, excluding the aforementioned equity investments, the Agency's Investment Policy indicates that the average effective duration of the portfolio is not to exceed 2.5 years and the maximum effective duration of any individual security is not to exceed 6 years.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)**

**Investment Type and Interest Rate Risk Disclosure (continued)**

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

**Interest Rate Risk**

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

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

Within the Agency's Bond Resolutions, the Agency generally manages overall exposure to interest rate risk by the use of derivative instruments. In this regard, the Agency has utilized both interest rate swap agreements and interest rate cap agreements within the Multi-Family Revenue Bond Resolution, the Multi-Family Housing Revenue Bond Resolution and the Single Family Housing Revenue Bond Resolution. For a further discussion of the Agency's use of derivatives, please refer to Note 18 – Derivative Instruments.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)**

**Interest Rate Risk (continued)**

As of December 31, 2012 and 2011, the Agency had the following investments, maturities and credit quality.

	Fair Value		Weighted Average Maturity (years)	Credit Ratings	
	2012	2011		S&P	Moody's
Investment type:					
Guaranteed Investment Contracts	\$ 189,225	\$ 192,923	19.89	Unrated	Unrated
U.S. Treasury Securities	85,584	92,174	3.08	AA+ to A-1+	Aaa
U.S. Government and Agency-Backed Securities	77,530	58,273	2.78	AA+	Aaa
Non-Agency Mortgage-Backed Securities	2,398	28	1.76	Unrated	Aaa to Aa1
Commercial Paper	1,995	-	0.64	A-2	P-2
Asset Backed Securities	26,871	24,827	2.10	AAA to AA+	Aaa
Corporate Notes	101,556	113,198	2.56	AAA to A-	Aaa to Baa1
Municipal Bonds	18,410	18,720	16.86	A+	Unrated
Other Short-Term Instruments	796	4,461	-	Unrated	Unrated
<b>Total investments</b>	<u>\$ 504,365</u>	<u>\$ 504,604</u>			

**Credit Risk**

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

The Agency's Bond Resolutions establish varying minimum rating levels for different types of investments. Generally, commercial paper must be rated in the highest rating category or A-1 / P-1 and money market funds must be rated in the highest rating category or in some cases must be rated at least the unenhanced rating on the bonds. Also, certain resolutions require that certain deposits or various short-term investments or cash equivalents may only be held by providers in either the highest or two highest rating categories. In some cases, certain debt obligations and state obligations must be rated in either the highest or the two highest rating categories. The Agency's guaranteed investment contracts which are permitted by certain of the Agency's Bond Resolutions are not rated, however, the Bond Resolutions which allow guaranteed investment contracts require either that the provider of such contracts have a long-term rating of double A or in some cases A-1 if the agreement term is less than one year or be rated within the two highest credit rating categories by two national credit rating agencies, must not affect the rating of the bonds or must be rated at least the unenhanced rating on the bonds.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)**

**Credit Risk** (continued)

On December 5, 2008, certain Single Family guaranteed investment contracts (GICs) with Natixis Funding Corp. and IXIS Funding Corp. were collateralized. The value of the collateralized investments at December 31, 2012 and 2011 was \$45,417 and \$40,694, respectively.

**Concentration of Credit Risk**

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

The following table shows investments in issuers that represent 5 percent or more of total investments at December 31, 2012:

Issuer	December 31, 2012	
NATIXIS Funding Corporation	\$ 125,513	61.40%
Monumental Life	27,127	13.30%
GE Capital Corporation	11,770	5.80%
AEGON	10,171	5.00%

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 years ended December 31, 2012 and 2011, the Agency did not invest in any repurchase agreements.

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 Program (funded by bond proceeds) are included in the restricted balances of \$133,637 and aggregate a fair value of approximately \$34,536 and \$54,537 as of December 31, 2012 and 2011, respectively. The debt service reserve for several of the Multi-Family issues is called the Housing Finance Fund. The debt service reserve investments for the Single-Family Program (funded by bond proceeds or contributed cash) are included in the restricted investment balances of \$59,407 and had an aggregate fair value of approximately \$18,910 and \$25,360 as of December 31, 2012 and 2011, respectively. In addition to the above investments, the debt service reserves may be satisfied with a Surety Bond issued by a qualified insurer. The Multi-Family component had \$71,684 and the Single-Family component had \$0 of Surety Bonds outstanding as of December 31, 2012 and 2011, respectively.



**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)**

**Investment Income**

Investment income is comprised of the following elements described below:

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

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

The Agency's investment income for the years ended December 31 is:

	<u>2012</u>	<u>2011</u>
Interest income on investments	\$ 16,328	\$ 17,449
Unrealized loss on investments	(903)	798
<b>Total</b>	<u>\$ 15,425</u>	<u>\$ 18,247</u>

**NOTE 4 – MORTGAGE LOANS RECEIVABLE**

**Single-Family Mortgage Component**

Mortgage loans held by the Single-Family Mortgage Program 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 December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Mortgage loans receivable	\$ 1,289,667	\$ 1,344,757
Loan origination costs - net	23,127	23,671
Commitment fees - net	(1,293)	(1,506)
Allowance for loan losses	<u>(5,628)</u>	<u>(14,364)</u>
Mortgage receivable - net	1,305,873	1,352,558
Less current portion	<u>(30,627)</u>	<u>(30,050)</u>
<b>Long term portion</b>	<u>\$ 1,275,246</u>	<u>\$ 1,322,508</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 4 – MORTGAGE LOANS RECEIVABLE (CONTINUED)**

**Multi-Family Housing Component**

The Multi-Family Housing Component of the Agency's mortgage loans receivable as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	\$ 147,799	\$ 174,609
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	181,538	218,632
Unsubsidized mortgage loans	<u>809,780</u>	<u>730,242</u>
Subtotal	1,139,117	1,123,483
Allowance for loan losses	(112,845)	(100,771)
Undisbursed mortgage loans	<u>(19,930)</u>	<u>(5,267)</u>
Mortgage receivable - net	1,006,342	1,017,445
Less current portion	<u>(76,351)</u>	<u>(63,127)</u>
<b>Long term portion</b>	<u>\$ 929,991</u>	<u>\$ 954,318</u>

**General Fund Component**

The General Fund mortgage loans receivable as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	\$ 15,626	\$ 16,764
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	22,512	23,419
Unsubsidized mortgage loans	220,098	232,739
Unearned discounts - net	(3)	(5)
Loan origination costs - net	<u>6</u>	<u>11</u>
Subtotal	258,239	272,928
Allowance for loan losses	(74,533)	(70,597)
Advanced (undisbursed) mortgage proceeds	<u>(133)</u>	<u>(13,189)</u>
Mortgage receivable - net	183,573	189,142
Less current portion	<u>(4,191)</u>	<u>(4,898)</u>
<b>Long term portion</b>	<u>\$ 179,382</u>	<u>\$ 184,244</u>

The Multi-Family Housing Component mortgage loans are repayable over terms originally up to 48 years and bear interest at rates from 0% to 13% 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.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 4 – MORTGAGE LOANS RECEIVABLE (CONTINUED)**

**General Fund Component** (continued)

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.

**NOTE 5 – DEBT SERVICE ARREARS RECEIVABLE**

Debt service arrears consist of mortgage principal, interest payments and fees in arrears on permanently financed loans, net of the allowance for loan losses as described in Note 4. The debt service arrears receivable was \$125,890 and \$109,527 at December 31, 2012 and 2011, respectively. The debt service allowance for loan losses was \$108,811 and \$100,879 as of December 31, 2012 and 2011, respectively. A subsidy payment receivable of \$1,790 and \$1,703 was due at December 31, 2012 and 2011, respectively.

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.

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 \$54,762 and \$50,371 against interest receivable was recorded at December 31, 2012 and 2011. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to \$318,012 and \$348,103 as of December 31, 2012 and 2011, respectively.

**NOTE 6 – 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.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 6 – SUPPLEMENTAL MORTGAGES AND OTHER LOANS (CONTINUED)**

**General Fund Component**

The General Fund supplemental mortgages and other loans receivable as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Mortgage loans subject to subsidy contracts under Section 8 of the National Housing Act	\$ 844	\$ 844
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	3,308	3,841
Agency supplemental mortgages	252,123	236,713
Special Needs Housing Trust Fund mortgages	135,934	116,838
HUD supplemental mortgages	881	881
Loans to projects	15,665	16,232
State of New Jersey supplemental mortgages	14,537	14,843
Other	<u>5,752</u>	<u>5,371</u>
Subtotal	429,044	395,563
Allowance for loan losses	(36,017)	(30,295)
Allowance for Special Needs Housing Trust	(135,592)	(106,831)
Undisbursed supplemental mortgage proceeds	<u>(19,116)</u>	<u>(15,821)</u>
Supplemental mortgages and other loans receivable, net	238,319	242,616
Less current portion	<u>(1,588)</u>	<u>(869)</u>
<b>Long term portion</b>	<u>\$ 236,731</u>	<u>\$ 241,747</u>

**Multi Family Housing Component**

The Multi-Family Housing Component of the Agency's supplemental mortgage receivable and other loans as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Supplemental mortgages	\$ 71,898	\$ 72,920
Allowance for loan losses	<u>(23,651)</u>	<u>(16,054)</u>
<b>Long term portion</b>	<u>\$ 48,247</u>	<u>\$ 56,866</u>

**Single-Family Housing Component**

The Single-Family Housing Component of the Agency's supplemental mortgage receivable was \$16,110 and \$20,170 as of December 31, 2012 and 2011, respectively.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**December 31, 2012**

**NOTE 7 – CAPITAL ASSETS**

Capital assets are summarized as follows:

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
Non-depreciable capital assets:				
Land	\$ 1,225	\$ -	\$ -	\$ 1,225
Depreciable capital assets:				
Building and building improvements	22,945	142	-	23,087
Motor vehicles	676	-	(41)	635
Machinery and equipment	5,984	115	(7)	6,092
Furniture and fixtures	415	65	-	480
Total	<u>30,020</u>	<u>322</u>	<u>(48)</u>	<u>30,294</u>
Less accumulated depreciation:				
Building and building improvements	(14,490)	(677)	-	(15,167)
Motor vehicles	(372)	(91)	41	(422)
Machinery and equipment	(5,283)	(224)	7	(5,500)
Furniture and fixtures	(370)	(19)	-	(389)
Total	<u>(20,515)</u>	<u>(1,011)</u>	<u>48</u>	<u>(21,478)</u>
<b>Total capital assets, net</b>	<u>\$ 10,730</u>	<u>\$ (689)</u>	<u>\$ -</u>	<u>\$ 10,041</u>

	<u>Balance December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Non-depreciable capital assets:				
Land	\$ 1,225	\$ -	\$ -	\$ 1,225
Depreciable capital assets:				
Building and building improvements	22,945	-	-	22,945
Motor vehicles	663	154	(141)	676
Machinery and equipment	5,666	367	(49)	5,984
Furniture and fixtures	392	23	-	415
Total	<u>29,666</u>	<u>544</u>	<u>(190)</u>	<u>30,020</u>
Less accumulated depreciation:				
Building and building improvements	(13,816)	(674)	-	(14,490)
Motor vehicles	(448)	(65)	141	(372)
Machinery and equipment	(5,002)	(330)	49	(5,283)
Furniture and fixtures	(336)	(34)	-	(370)
Total	<u>(19,602)</u>	<u>(1,103)</u>	<u>190</u>	<u>(20,515)</u>
<b>Total capital assets, net</b>	<u>\$ 11,289</u>	<u>\$ (559)</u>	<u>\$ -</u>	<u>\$ 10,730</u>

Depreciation expense was \$1,011 and \$1,103 for the years ended December 31, 2012 and 2011, respectively.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 8 – BONDS AND OBLIGATIONS**

The Agency obtains funds to finance its various mortgage programs through the sale of bonds and other obligations. Interest on Agency bonds and obligations is generally payable monthly, quarterly or semiannually. Generally, bond principal is due in annual or semiannual installments. Term bonds are subject to redemption by application of sinking fund installments. Pursuant to the related bond and obligation resolutions, the Agency has authorized and issued as of December 31, 2012 the following bonds and obligations:

Description of Bonds as Issued	Bonds Outstanding December 31, 2011	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2012	Amount Due Within One Year
<b>Single Family</b>					
Housing Revenue Bonds:					
2003 Series C, 1.65% to 5.00%, due 2005 to 2033	\$ 980	\$ -	\$ 980	\$ -	\$ -
2004 Series G, 1.60% to 4.25%, due 2005 to 2015	-	-	-	-	-
2004 Series H, 3.95% to 5.25%, due 2011 to 2034	5,595	-	3,015	2,580	-
2004 Series I, variable rate, due 2025 to 2034	19,800	-	-	19,800	-
2005 Series L, 2.625% to 4.35%, due 2006 to 2017	8,010	-	1,235	6,775	1,270
2005 Series M, 4.87% to 5.00%, due 2026 to 2036	11,040	-	1,720	9,320	-
2005 Series N., variable rate, due 2017	21,420	-	2,635	18,785	3,170
2005 Series O, variable rate, due 2026 to 2031	39,025	-	-	39,025	-
2005 Series P, variable rate, due 2008 to 2025	15,755	-	1,810	13,945	1,895
2005 Series Q, variable rate, due 2010 to 2032	23,970	-	4,550	19,420	495
2005 Series R, variable rate, due 2031 to 2038	24,565	-	-	24,565	-
2007 Series S, 3.60% to 4.05%, due 2008 to 2017	34,550	-	6,245	28,305	5,145
2007 Series T, 4.55% to 5.25%, due 2022 to 2047	120,785	-	9,430	111,355	-
2007 Series U, 3.60% to 5%, due 2008 to 2037	75,405	-	5,005	70,400	1,025
2007 Series V, variable rate, due 2037	96,375	-	-	96,375	-
2007 Series W, 5.27%, due 2032	11,935	-	11,935	-	-
2008 Series X, 3.25% to 5.375%, due 2030	51,390	-	17,140	34,250	1,840
2008 Series Y, variable rate, due 2039	78,130	-	-	78,130	-
2008 Series Z, variable rate, due 2034	37,580	-	-	37,580	-
2008 Series AA, 3.00% to 6.50%, due 2038	139,750	-	31,775	107,975	2,815
2008 Series BB, variable rate, due 2039	79,085	-	-	79,085	-
2009 Series CC, .88% to 5.25%, due 2038	70,515	-	9,710	60,805	760
2009 Series DD, .75% to 3.50%, due 2017	18,285	-	370	17,915	1,950
2009 Series EE, 2.00% to 5.20%, due 2025	37,710	-	4,160	33,550	1,675
2009 Series FF, 4.00% to 5.05%, due 2039	15,390	-	2,255	13,135	-
2009 Series GG, 1.00% to 5.00%, due 2039	23,970	-	1,300	22,670	475
Total housing revenue bonds	<u>1,061,015</u>	<u>-</u>	<u>115,270</u>	<u>945,745</u>	<u>22,515</u>
Single Family Home Mortgage Bonds:					
2009 Series A1, 3.63%, due 10/01/2041	106,650	-	2,500	104,150	-
2009 Series A2, 3.63%, due 10/01/2029	45,700	-	1,090	44,610	-
2011 Series A, .50% to 4.65%, due 10/01/2029	101,570	-	7,870	93,700	6,460
2009 Series B1, 2.64%, due 10/01/2041	96,910	-	1,080	95,830	-
2009 Series B2, 2.64%, due 10/01/2025	59,300	-	600	58,700	-
2011 Series B, 4.00% to 4.50%, due 10/01/2032	73,090	-	1,105	71,985	-
2011 Series C, .3% to 2.25%, due 04/01/2017	9,015	-	2,860	6,155	1,510
2011 Series D, 1.2% to 3.25%, due 04/01/2018	22,050	-	-	22,050	3,145
Total single family home mortgage bonds	<u>514,285</u>	<u>-</u>	<u>17,105</u>	<u>497,180</u>	<u>11,115</u>
Total single family	1,575,300	-	132,375	1,442,925	33,630
Net premium on bonds payable	4,520	-	-	3,884	-
Deferred bond refunding costs	(771)	-	-	(718)	-
Total single family bonds payable (net)	<u>1,579,049</u>	<u>-</u>	<u>132,375</u>	<u>1,446,091</u>	<u>33,630</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 8 – BONDS AND OBLIGATIONS (CONTINUED)**

Description of Bonds as Issued	Bonds Outstanding December 31,		Matured/ Called/ Redeemed		Bonds Outstanding December 31,		Amount Due Within One	
	2011	Issued			2012	Year		
<b>Multi Family</b>								
General housing loan bonds:								
1970 Series A, 4.50%, due 2004 to 2019	\$ 1,690	\$ -	\$ 180	\$ 1,510	\$ 190			
1971 Series A, 5.35% to 5.40%, due 2004 to 2019	10,560	-	1,400	9,160	1,450			
1972 Series B, 5.20% to 5.25%, due 2004 to 2021	12,255	-	1,790	10,465	1,885			
	<u>24,505</u>	<u>-</u>	<u>3,370</u>	<u>21,135</u>	<u>3,525</u>			
Total general housing loan bonds								
Multi-Family Housing Revenue:								
1991 Series I, (Presidential Plaza) 6.50% to 7.00%, due 2004 to 2030	108,310	-	3,145	105,165	3,365			
Multi-Family Housing Revenue Bonds								
1995 Resolution:								
1997 Series A, 4.45% to 5.65%, due 2004 to 2040	43,375	-	770	42,605	810			
1997 Series C, 6.47% to 7.42%, due 2004 to 2040	5,285	-	200	5,085	235			
1999 Series A, 3.95% to 5.15%, due 2004 to 2030	15,960	-	510	15,450	535			
1999 Series B, 3.85% to 4.70%, due 2004 to 2013	200	-	145	55	55			
1999 Series C, 5.97% to 7.12%, due 2004 to 2030	4,730	-	140	4,590	145			
2000 Series A1, 5.10% to 6.35%, due 2004 to 2032	12,960	-	330	12,630	360			
2000 Series B, 5.00% to 6.25%, due 2004 to 2026	21,200	-	2,635	18,565	1,725			
2000 Series C1, 8.38%, due 2004 to 2032	24,045	-	12,740	11,305	255			
2000 Series C2, variable rate, due 2004 to 2032	5,270	-	110	5,160	115			
2000 Series E1, 4.65% to 5.75%, due 2004 to 2025	27,075	-	3,650	23,425	3,850			
2000 Series E2, 4.65% to 5.75%, due 2004 to 2025	2,255	-	150	2,105	155			
2000 Series F, 7.93%, due 2004 to 2031	14,580	-	315	14,265	345			
2000 Series G, 4.65% to 5.35%, due 2004 to 2013	635	-	305	330	330			
2001 Series A, 3.10% to 5.05%, due 2004 to 2034	15,590	-	-	15,590	-			
2001 Series B, 6.64%, due 2004 to 2032	11,730	-	295	11,435	315			
2002 Series B, variable rate, due 2004 to 2023	12,125	-	760	11,365	800			
2002 Series C, 2.90% to 4.95%, due 2004 to 2015	12,615	-	10,845	1,770	1,550			
2002 Series D, 5.50%, due 2004 to 2022	1,280	-	1,280	-	-			
2002 Series E, 7.00%, due 2004 to 2022	3,020	-	3,020	-	-			
2002 Series F, 3.75% to 5.40%, due 2004 to 2016	8,590	-	4,415	4,175	4,175			
2002 Series G, variable rate, due 2004 to 2025	4,625	-	230	4,395	255			
2003 Series A, 1.40% to 5.05%, due 2004 to 2044	26,170	-	790	25,380	725			
2003 Series C, 1.20% to 4.70%, due 2004 to 2033	3,155	-	80	3,075	80			
2004 Series A, 1.80% to 3.75%, due 2006 to 2014	5,770	-	2,280	3,490	2,320			
2004 Series D, 1.70% to 5.20%, due 2006 to 2046	20,020	-	810	19,210	845			
2008 Series 1, 5.75%, due 2038	3,510	-	-	3,510	250			
2008 Series 2, variable rate, due 2046	6,490	-	120	6,370	-			
2008 Series 3, variable rate, due 2046	166,440	-	7,400	159,040	2,855			
2008 Series 4, variable rate, due 2037	21,595	-	495	21,100	505			
	<u>500,295</u>	<u>-</u>	<u>54,820</u>	<u>445,475</u>	<u>23,590</u>			
Total 1995 Resolution								

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**NOTE 8 – BONDS AND OBLIGATIONS (CONTINUED)**

Description of Bonds as Issued	Bonds Outstanding December 31,		Matured/ Called/	Bonds Outstanding December 31,		Amount Due Within One
	2011	Issued	Redeemed	2012	Year	
Multi-Family Housing Revenue Bonds						
2005 Resolution:						
2005 Series A1, 2.20% to 4.95%, due 2005 to 2046	\$ 22,045	\$ -	\$ 400	\$ 21,645	\$ 425	
2005 Series A2, 4.95%, due 2040 to 2046	4,365	-	-	4,365	-	
2005 Series D, 2.00% to 4.70%, due 2005 to 2030	25,165	-	1,755	23,410	1,535	
2005 Series F, variable rate, due 2005 to 2040	11,855	-	425	11,430	445	
2005 Series G, variable rate, due 2007 to 2047	4,595	-	65	4,530	65	
2006 Series A, variable rate, due 2006 to 2028	20,520	-	910	19,610	950	
2006 Series B, variable rate, due 2006 to 2028	6,915	-	635	6,280	605	
2006 Series C, 4.90% to 5.00%, due 2007 to 2026	2,795	-	55	2,740	60	
2006 Series E, 4.65% to 4.80%, due 2007 to 2036	4,900	-	95	4,805	100	
2007 Series A, 3.75% to 4.95%, due 2008 to 2048	23,780	-	-	23,780	-	
2007 Series B, 5.39% to 6.13%, due 2017 to 2037	4,500	-	70	4,430	75	
2007 Series G, variable rate, due 2008 to 2034	13,870	-	485	13,385	490	
2007 Series I, variable rate, due 2008 to 2029	7,270	-	265	7,005	280	
2008 Series A, 2.5% to 6.0%, due 2009 to 2050	9,805	-	90	9,715	140	
2008 Series B, variable rate, due 2008 to 2048	56,260	-	515	55,745	545	
2008 Series C, variable rate, due 2009 to 2039	10,320	-	140	10,180	150	
2008 Series D, 2.75% to 5.20%, due 2008 to 2019	4,595	-	530	4,065	550	
2008 Series E, 2.00% to 5.63%, due 2008 to 2029	15,970	-	1,470	14,500	1,275	
2008 Series F, variable rate, due 2019 to 2048	96,125	-	100	96,025	-	
2008 Series G, variable rate, due 2008 to 2039	14,770	-	185	14,585	190	
2009 Series A, 1.95% to 4.95%, due 2011 to 2041	30,395	-	-	30,395	385	
2009 Series B, 4.70% to 4.90%, due 2010 to 2040	4,005	-	50	3,955	55	
2009 Series D, variable rate, due 2010 to 2048	18,720	-	310	18,410	315	
2010 Series A, 0.8% to 4.65%, due 2011 to 2041	7,080	-	275	6,805	330	
2010 Series B, 1.10% to 1.70%, due 2012 to 2014	33,690	-	27,300	6,390	-	
2010 Series C, 1.12% to 6.65%, due 2011 to 2044	45,095	-	1,360	43,735	745	
2012 Series A, 1.00% to 4.55%, due 2013 to 2043	-	22,080	-	22,080	165	
2012 Series B, .9% to 1.75%, due 2013 to 2016	-	21,865	-	21,865	5,770	
2012 Series C, 4.38%, due 2013 to 2025	-	3,170	-	3,170	20	
2012 Series D, 1.13%, due 2014	-	23,990	-	23,990	20,680	
2012 Series E, 1.439% to 5.086%, due 2013 to 2043	-	9,310	-	9,310	130	
2012 Series F, 4.83%, due 2014 to 2025	-	355	-	355	-	
Total 2005 bond resolution	499,405	80,770	37,485	542,690	36,475	
Total multi-family bonds program	1,132,515	80,770	98,820	1,114,465	66,955	
Net discount on bonds payable	(234)	-	-	(212)	-	
Deferred bond refunding costs	(7,499)	-	-	(6,540)	-	
Total multi-family bonds payable (net)	1,124,782	80,770	98,820	1,107,713	66,955	
<b>Total bonds payable</b>	<u>\$ 2,703,831</u>			<u>\$ 2,553,804</u>		

Simultaneously with the issuance of the Multi-Family Revenue Bonds, 2009 Series A, B, C and D, the agency issued and delivered to the trustee, for the benefit of the holders of all bonds outstanding under the Multi-family 2005 Resolution a surety bond up to an amount not to exceed \$25,000 which is included as pledged funds under the resolution. The Agency Surety is a limited, general obligation of the Agency, and has a term expiring no later than November 1, 2016.

In June 2012, the Agency issued \$93.2 million of Multi-Family Revenue Bonds to finance 15 rental housing developments containing a total of 1,080 multifamily units



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**NOTE 8 – BONDS AND OBLIGATIONS (CONTINUED)**

Interest paid on variable-rate tax-exempt bonds is closely correlated with The Securities Industry and Financial Markets Association Municipal Swap (SIFMA) Rate and taxable bond rates are closely correlated with LIBOR or the FHLB Discount Note rate plus a fixed spread. Generally, note resets occur quarterly, monthly or weekly.

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

As of December 31, 2012 and 2011, there was \$23,536 and \$18,695, 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.

**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:

Agency Component	Fixed and Unhedged Variable Rate		Hedged Variable Rate			Principal	Related Interest and Interest Rate Swaps, Net
	Principal	Interest	Principal	Interest	Interest Rate Swaps, Net		
<b>Single Family</b>							
2013	\$ 28,070	\$ 42,573	\$ 5,560	\$ 575	\$ 15,577	\$ 33,630	\$ 58,725
2014	29,680	41,742	6,890	527	15,363	36,570	57,632
2015	30,960	40,782	8,655	518	15,096	39,615	56,396
2016	32,100	39,702	9,310	508	14,771	41,410	54,981
2017	31,130	38,542	10,930	496	14,425	42,060	53,463
2018-2022	175,960	171,733	46,570	2,295	66,364	222,530	240,392
2023-2027	215,175	128,697	55,135	1,984	56,470	270,310	187,151
2028-2032	195,870	77,553	106,235	1,502	42,810	302,105	121,865
2033-2037	188,725	36,837	140,885	700	20,422	329,610	57,959
2038-2041	88,545	5,951	36,540	55	1,610	125,085	7,616
<b>Total</b>	<u>\$ 1,016,215</u>	<u>\$ 624,112</u>	<u>\$ 426,710</u>	<u>\$ 9,160</u>	<u>\$ 262,908</u>	1,442,925	
Add unamortized premium						3,884	
Less unamortized deferral on refunding						(718)	
<b>Total</b>						<u>\$ 1,446,091</u>	

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**NOTE 8 – BONDS AND OBLIGATIONS (CONTINUED)**

Agency Component	Fixed and Unhedged Variable Rate		Hedged Variable Rate			Principal	Related Interest and Interest Rate Swaps, Net
	Principal	Interest	Principal	Interest	Interest Rate Swaps, Net		
<b>Multi-Family</b>							
2013	\$ 59,035	\$ 25,944	\$ 7,650	\$ 1,774	\$ 18,897	\$ 66,955	\$ 46,615
2014	45,495	24,504	8,825	1,671	18,569	54,320	44,744
2015	27,910	23,431	10,295	1,628	18,169	38,205	43,228
2016	26,855	22,647	10,770	1,580	17,735	37,625	41,962
2017	27,220	21,833	11,230	1,526	17,280	38,450	40,639
2018-2022	127,190	94,723	73,055	6,761	78,188	200,245	179,672
2023-2027	118,985	70,513	87,020	5,032	60,827	206,005	136,372
2028-2032	110,015	47,429	75,855	3,275	42,296	185,870	93,000
2033-2037	68,530	25,771	69,410	1,908	26,674	137,940	54,353
2038-2042	45,775	9,686	46,665	970	13,628	92,440	24,284
2043-2047	11,670	2,302	35,620	276	4,791	47,290	7,369
2048-2050	3,795	273	5,325	3	120	9,120	396
<b>Total</b>	<u>\$ 672,475</u>	<u>\$ 369,056</u>	<u>\$ 441,720</u>	<u>\$ 26,404</u>	<u>\$ 317,174</u>	1,114,465	
Net discount on bonds payable							(212)
Unamortized deferral on refunding							<u>(6,540)</u>
<b>Total</b>						<u>\$ 1,107,713</u>	

**NOTE 9 – CONDUIT DEBT OBLIGATIONS**

On September 7, 2006, the Agency closed on \$8,350 in Variable Rate Demand Multifamily Housing Revenue Bonds (Meadow Brook Apartments Project) consisting of 2006 Series A Bonds. The bond issue will finance 96 rental units. At December 31, 2012 and 2011 the bonds outstanding were \$6,830.

During the fiscal year ended June 30, 2005, the Agency issued 2004 Series A Capital Fund Program Bonds and on August 15, 2007, the Agency issued 2007 Series A Capital Fund Program Revenue Bonds. These bonds were issued to provide funds to local Housing Authorities to finance on an accelerated basis certain capital renovations and an improvement to each of the Authority's public housing developments. The bonds are payable from and secured primarily by Capital Fund Program monies, subject to the availability of appropriations to be paid by the United States Department of HUD to each Authority. These bonds are special and limited obligations of the Agency. The bonds, which are considered conduit debt obligations by GASB, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 – CONDUIT DEBT OBLIGATIONS (CONTINUED)**

At December 31, 2012 and 2011, Capital Fund Program Bonds outstanding aggregated \$72,145 and \$76,025, respectively.

On December 21, 2011, the Agency closed on \$4,550 of fixed rate bonds to finance a single Multifamily project, (Woodbury Oakwood Housing Project), consisting of 2011 Series Bonds. At December 31, 2011 the bonds outstanding were \$4,550.

On July 1, 2012, the Agency closed on \$14,310 of fixed rate bonds to finance a single Multifamily project (Asbury Park Gardens), consisting of 2012 Series A Bonds. At December 31, 2012 the bonds outstanding were \$14,310.

On December 21, 2012, the Agency closed on \$19,755 of fixed rate bonds for the construction and permanent financing of a single Multifamily project (Washington Dodd), consisting of 2012 Series F Bonds. At December 31, 2012 the bonds outstanding were \$19,755.

On December 28, 2012, the Agency closed on \$31,656 of fixed rate bonds to finance a single Multifamily project (Carl Miller Homes), consisting of 2012 Series C Bonds. At December 31, 2012 the bonds outstanding were \$31,656.

**NOTE 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 December 31 include the following:

	<u>2012</u>	<u>2011</u>
Multi-family housing component	\$ 39,226	\$ 39,920
General fund:		
Community development escrows	1,641	3,748
Development cost escrows	5,309	7,068
Other funds held in trust	<u>319,034</u>	<u>316,709</u>
Total general fund	<u>325,984</u>	<u>327,525</u>
<b>Total</b>	<u>\$ 365,210</u>	<u>\$ 367,445</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 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 December 31 include the following:

	<u>2012</u>	<u>2011</u>
Multi-family housing component	\$ 4,094	\$ 4,609
General fund:		
Reserve for repairs and replacements	170,352	171,781
Tax and insurance escrows	<u>43,471</u>	<u>43,566</u>
Total general fund	<u>213,823</u>	<u>215,347</u>
<b>Total</b>	<u>\$ 217,917</u>	<u>\$ 219,956</u>

**NOTE 12 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity is summarized as follows:

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
Bonds and obligations, net	\$ 2,703,831	\$ 81,168	\$ 231,195	\$ 2,553,804	\$ 100,585
Minimum escrow requirement	9,930	324	453	9,801	-
Funds held in trust for mortgagor	367,445	592,671	594,906	365,210	-
Unearned revenues	22,762	98,018	56,968	63,812	-
Other non-current liabilities	<u>20,733</u>	<u>2,780</u>	<u>2,496</u>	<u>21,017</u>	<u>-</u>
<b>Total</b>	<u>\$ 3,124,701</u>	<u>\$ 774,961</u>	<u>\$ 886,018</u>	<u>\$ 3,013,644</u>	<u>\$ 100,585</u>

	<u>Balance December 31, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2011</u>	<u>Due Within One Year</u>
Bonds and obligations, net	\$ 2,502,834	\$ 514,285	\$ 313,288	\$ 2,703,831	\$ 101,605
Minimum escrow requirement	9,722	370	162	9,930	-
Funds held in trust for mortgagor	373,288	465,787	471,630	367,445	-
Unearned revenues	18,301	13,157	8,696	22,762	-
Other non-current liabilities	<u>18,498</u>	<u>3,793</u>	<u>1,558</u>	<u>20,733</u>	<u>-</u>
<b>Total</b>	<u>\$ 2,922,643</u>	<u>\$ 997,392</u>	<u>\$ 795,334</u>	<u>\$ 3,124,701</u>	<u>\$ 101,605</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 13 – NET POSITION**

**Restricted Under Bond and Obligation Resolutions**

As described in Note 3, monies within each Bond and Obligation Fund are pledged as security for the respective bondholders, and thus are restricted as to their application.

**Restricted**

Restricted net position represents the portion of total net position restricted by the various programs established for the sole purpose of providing housing and residential opportunities for individuals with special needs. All restricted amounts are net of related liabilities.

**Appropriated General Fund Net Position**

Appropriated General Fund net position is unrestricted net position that has been designated by the Agency's members for the following purposes at December 31, 2012 and 2011.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 13 – NET POSITION (CONTINUED)**

**Appropriated General Fund Net Position (continued)**

	<u>2012</u>	<u>2011</u>
ABC Corporation	\$ 1,468	\$ 1,461
Affordable Rental Housing Subsidy Loan Program	2	2
Agency CIAP	701	1,025
Aging Out of Foster Care	1,300	1,300
At Home Downtown	154	154
Bond Refunding Proceeds	1,687	1,715
Camden Initiative	458	468
Cash Flow Cash Advisory	-	199
Cash Flow Swap Advisory	374	-
CHOICE	41,155	52,977
CIAP Loan Program	5,864	6,631
City Living	-	14,000
Developmental Disabilities Partnership	10,668	13,000
Energy Benchmarking	50	50
Ex-Offenders Re-Entry Housing Program	37	37
Homeless Management Information System	100	100
HOPE	500	500
Information Technology	311	244
Life Safety Rehabilitation	153	153
Live Where You Work	728	249
MONI HIF	672	771
NJHMFA Portion of Undisbursed Mtg. Proceeds	543	555
Non-Bond Multi-Family Program	34,575	6,575
PLAN Fund	5,000	5,000
Policy and Community Initiatives	46	45
Portfolio Disposition	-	8
Portfolio Reserve Balance	3,316	2,993
Preservation Initiatives	10	10
Project Remediation	694	709
Public Outreach Initiatives	200	270
Whitlock Mills #1388	-	5,700
Shore Easy	80	82
Single Family Counseling	110	113
Small Rental Project Preservation Loan Program	9,026	18,024
Social Investment Policy	250	250
Strategic Zone Lending Pool	11,501	9,538
Transitional Housing Loans	388	309
UHORP HIF	1,104	1,173
UHORP Mortgage Commitment	14,973	18,547
Urban Statewide Acquisition - NJUSA	3,074	3,074
Welcome Home Program	151	467
<b>Total</b>	<u>\$ 151,423</u>	<u>\$ 168,478</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 13 – NET POSITION (CONTINUED)**

Changes in net position are summarized as follows:

	<u>Invested in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Net position at December 31, 2010	\$ 11,289	\$ 426,085	\$ 516,540	\$ 953,914
Income	-	-	(55,768)	(55,768)
Acquisition of capital assets	544	-	(544)	-
Transfer	-	(43,363)	43,363	-
Depreciation on capital assets	(1,103)	-	1,103	-
Net position at December 31, 2011	10,730	382,722	504,694	898,146
Income	-	-	8,661	8,661
Acquisition of capital assets	322	-	(322)	-
Transfer	-	10,442	(10,442)	-
Depreciation on capital assets	(1,011)	-	1,011	-
<b>Net position at December 31, 2012</b>	<u>\$ 10,041</u>	<u>\$ 393,164</u>	<u>\$ 503,602</u>	<u>\$ 906,807</u>

**NOTE 14 – PENSION PLAN**

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

The contribution requirements of plan members are determined by State statute. Effective July 1, 2011, in accordance with Chapter 78, P.L. 2011, the contribution rate increased to 6.5% of annual covered salary for plan members enrolled in the Public Employees' Retirement System with an additional 1% increase to be phased in over the next 7 years bringing the total pension contribution rate to 7.5% of salary by July 1, 2018. At December 31, 2012 the contribution rate is 6.64% of annual salary. The Agency is billed annually for its normal contribution plus any accrued liability.

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

**Public Employees Retirement System**

<u>Period</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Total Liability</u>	<u>Funded by State</u>	<u>Paid by Agency</u>
Fiscal year ended December 31, 2012	\$ 629	\$ 1,257	\$ 1,886	\$ -	\$ 1,886
Fiscal year ended December 31, 2011	692	1,103	1,795	-	1,795
Fiscal year ended December 31, 2010	649	833	1,482	-	1,482
Fiscal year ended December 31, 2009	466	539	1,005	-	1,005

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 – PENSION PLAN (CONTINUED)**

**Early Retirement Incentive Program**

The Agency has approved Early Retirement Incentive Programs known as ERI 1 and ERI 3, as permitted by State legislation for certain members of the Public Employees’ Retirement System. These members had to meet certain age and service requirements and had to apply for retirement between certain dates. Three (3) employees participated in ERI 1 and fifteen (15) employees participated in ERI 3. The Agency is assessed annually for the actuarially determined contribution to fund this program. The Agency is obligated to make annual installments with each subsequent year payment increasing every year by 4% (ERI 1) and 5.95% for 2006 and 4% beginning in 2007 (ERI 3). Payments for the years ended December 31, 2012, 2011, and 2010, were \$123, \$118, and \$114, respectively.

Installments due by the Agency at December 31, 2012 are as follows:

2013	\$	128
2014		133
2015		138
2016		144
2017		150
2018-2022		807
2023-2027		818
2028-2032		996
2033-2034		456
<b>Total</b>	<b>\$</b>	<b><u>3,770</u></b>

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

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

**NOTE 15 – POST EMPLOYMENT BENEFITS**

The Agency follows the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This statement establishes guidelines for reporting costs associated with “other post-employment benefits” (OPEB). OPEB costs are actuarially calculated based on plan benefits (other than pensions) that current and retired employees have accrued as a result of their respective years of employment service and to what extent progress is being made in funding the plan.

The Agency elected to recognize the entire liability of \$28,146 as of January 1, 2007.



**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 15 – POST EMPLOYMENT BENEFITS (CONTINUED)**

**The Plan**

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 along with their spouses, and some dependent children. The plan offers comprehensive benefits through various plan providers consisting of hospital, medical, health, substance abuse and prescription drug programs. The State administers the plan and has the authority to establish and amend certain benefit provisions offered. The State's plan is considered a single employer defined benefit plan, is not a separate entity or trust and does not issue stand-alone financial statements. The Agency, as a participant in the plan, recognizes OPEB expenses on an accrual basis.

**Funding Policy**

On June 28, 2011 the State of New Jersey Legislature passed Pension and Health Benefits Reform. This legislation requires all employees to contribute a certain percentage of their health benefit premiums towards the cost of their coverage. The percentage is tiered based on coverage type and salary. The percentages will be phased in over 4 years with the full amount becoming effective July 1, 2014. The percentages for 2011 range from 1% - 8.75% of the insurance premium based on salary, with a minimum of 1.5% of salary to be contributed. The Agency implemented this plan in October 2011, and prior to that as of July 1, 2008 current employees contributed 1.5% of their salary toward medical benefits. During the years ended December 31, 2012 and 2011, the Agency paid \$3,105 and \$2,725, respectively, in health insurance premiums for current employees. The Agency also paid \$803 and \$735 for the years ended December 31, 2012 and 2011, respectively, towards benefits for 58 and 55 eligible retired members. Retired employees who are eligible for Medicare are also reimbursed for their portion of Medicare insurance premiums on a pay-as-you-go basis.

The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years. The Agency has elected to amortize the UAAL over one year. The Agency's annual OPEB cost for the years ended December 31, 2012 and 2011 and the related information for the plan are as follows (dollar amounts in thousands):

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 2,586	\$ 13,555
Interest on net OPEB obligation	<u>1,921</u>	<u>1,355</u>
Annual OPEB cost	4,507	14,910
Contributions made	<u>(803)</u>	<u>(735)</u>
Increase in net OPEB obligation	3,704	14,175
Net OPEB obligation, beginning of year	<u>48,026</u>	<u>33,851</u>
<b>Net OPEB obligation, end of year</b>	<u>\$ 51,730</u>	<u>\$ 48,026</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 15 – POST EMPLOYMENT BENEFITS (CONTINUED)**

**Funding Policy (continued)**

The Plan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 were as follows (dollar amounts in thousands)

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 4,507	17.8%	\$ 51,730
December 31, 2011	14,910	4.9%	48,026
December 31, 2010	2,999	22.1%	33,851

The actuarial accrued liability for benefits was \$45,393 at January 1, 2011, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,209 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 249.3%.

The actuarial valuation date is January 1, 2011. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Methods and Assumptions*

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the January 1, 2011 actuarial valuation, the projected unit credit cost method was used with the unfunded liability immediately recognized. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate based on the Society of Actuaries – Getzen Model with some adjustments to the baseline assumptions and for administrative costs and reflective of the Excise Tax (Cadillac Tax) beginning in 2018 due to healthcare reform. The trend rates for pre and post age 65 participants are 7.4% and 10.5%, respectively, for 2012 and 2011 grading to 5.4% and 5.8% by 2055, respectively.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 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.

**NOTE 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 8), 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 \$739 and \$365 for the years ended December 31, 2012 and 2011, respectively, for the Multi-Family Bond Resolution Fund and \$0 at December 31, 2012 and 2011, for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

**NOTE 18 – DERIVATIVE INSTRUMENTS**

The Agency has several variable rate bond series currently outstanding. In order to protect against the potential of rising interest rates, the Agency entered into various pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the Agency would have paid to issue fixed-rate debt. The notional principal of the swaps in some cases initially increase as the borrowed funds are anticipated to be loaned out. The Agency also entered into various interest rate cap agreements that were anticipated to effectively limit the Agency's interest rate exposure during the period before the swaps fully hedge the exposure. As of December 31, 2012, all interest rate cap agreements have expired. For footnote purposes, the fair values of the Agency's derivatives have been presented.

The Agency used the synthetic instrument method to evaluate the hedge effectiveness of the interest rate swaps. This method evaluates effectiveness by combining the cash flows on the derivative with the cash flows on the hedged item to create a new instrument. The synthetic rate on the cash flows is calculated based on the combination of all the cash flows and is compared against the fixed rate on the derivative. A potential hedging derivative instrument is effective if the actual synthetic rate is within a range of 90 to 111 percent of the fixed rate of the potential hedging derivative instrument to be substantially fixed.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
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**NOTE 18 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Terms, Fair Values and Credit Risk**

At December 31, 2012, single family derivatives and all multi-family derivatives met the criteria for effectiveness.

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2012, are summarized in the table below. The swaps are utilized to hedge the risk from the associated variable rate debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The Agency pays a fixed interest rate on the notional amount that represents the principal amount of the related bonds. The Agency receives either 1-month LIBOR times the notional amount for the taxable borrowings, or a percentage of 1-month LIBOR plus a fixed spread or The Securities Industry and Financial Markets Association Municipal Swap (SIFMA) Index times the notional amount for the tax-exempt borrowings from the counterparty, plus a fixed spread as applicable, 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.

As prescribed by use of the synthetic instrument method under GASB 53, upon association with a variable-rate asset or liability, the potential hedging derivative instrument has a zero fair value and as such the financial statements reflect off-market loan balances at December 31, 2012. The following tables present both the hedging derivative value and the off market loan balances for Single Family and Multi Family Bond Component Swaps at December 31, 2012. This presentation has no effect on the net position of the Agency.

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**NOTE 18 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Single Family Bond Component Swaps**

Associated Bond Issue	Hedged		Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Hedging Derivative Value	Off Market Loan Balance	Counterparty
	Variable Rate Bonds Outstanding	Swap Notional Amount							
SHRB* 2004 I-1	\$ 19,800	\$ 21,125	8/5/2004	4/1/2025	4.145%	68.2% of 1-Mo LIBOR + 27bp	\$ (1,352)	\$ 734	JPMorgan Chase Bank, N.A.
SHRB* 2005 N	18,785	18,785	10/1/2006	10/1/2017	4.055%	68% of 1-Mo LIBOR + 8bp**	(2,139)	23	JPMorgan Chase Bank, N.A.
SHRB* 2005 O-2	32,925	21,925	4/1/2006	4/1/2031	4.332%	68% of 1-Mo LIBOR + 8bp***	(413)	517	JPMorgan Chase Bank, N.A.
SHRB* 2005 P/Q/R	57,930	35,940	11/1/2006	4/1/2038	4.797%	USD-SIFMA Municipal Swap Index	(3,977)	140	The Bank of New York Mellon Goldman Sachs Mitsui Marine
SHRB* 2005 P/Q/R	-	21,988	4/1/2007	4/1/2038	3.927%	68% of 1-Mo LIBOR + 18bp	(2,477)	69	Derivative Products, L.P.
SHRB* 2007 V	96,375	96,375	11/8/2007	10/1/2037	4.060%	69% of 1-Mo LIBOR	(12,777)	409	Royal Bank of Canada, New York
SHRB* 2008 BB	79,085	79,085	3/1/2009	10/1/2039	3.504%	68% of 1-Mo LIBOR	(12,338)	431	The Bank of New York Mellon
SHRB* 2008 Y	78,130	78,130	5/1/2008	10/1/2039	3.757%	69% of 1-Mo LIBOR	(9,276)	330	The Bank of New York Mellon Goldman Sachs Mitsui Marine
SHRB* 2008 Z-1	37,580	13,565	5/1/2008	10/1/2023	3.893%	67% of 1-Mo LIBOR + 16 bp	(420)	108	Derivative Products, L.P.
SHRB* 2008 Z-2	-	24,015	10/1/2008	10/1/2034	4.025%	69% of 1-Mo LIBOR	(719)	327	Bank of America, N.A.
								<u>\$ 3,088</u>	

\* Single-Family Housing Revenue Bonds

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

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

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 18 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Multi-Family Bond Component Swaps**

Associated Bond Issue	Hedged Variable Rate Bonds Outstanding	Swap Notional Amount	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Hedging Derivative Value	Off Market Loan Balance	Counterparty
Cash Flow Hedges:									
MHRB* 2002-G	\$ 4,395	\$ 4,395	10/2/2002	5/1/2025	6.2450%	1-Mo LIBOR	\$ (1,424)	\$ 4	Merrill Lynch Capital Services, Inc. (MLCS)
MHRB 2008-3	159,040	46,080	11/1/2002	5/1/2029	1.9888%	USD-SIFMA Municipal Swap Index	(7,551)	5,259	Merrill Lynch Capital Services, Inc. (MLCS)
MHRB 2008-3	-	26,300	11/1/2003	5/1/2033	4.3355%	USD-SIFMA Municipal Swap Index	(4,522)	1,860	Goldman Sachs Mitsui Marine Derivative Products, L.P.
MHRB 2008-3	-	90,590	5/1/2005	11/1/2046	1.0010%	67% of 1-Mo LIBOR + 18bp	(13,202)	3,190	Bank of America, N.A.
MHRB 2008-4	21,100	11,700	5/8/2003	5/1/2035	5.2810%	1-Mo LIBOR	(2,583)	440	Bank of America, N.A.
MHRB 2008-4	-	9,135	5/1/2004	11/1/2037	5.3150%	1-Mo LIBOR	(2,382)	472	JPMorgan Chase Bank, N.A.
MRB** 2005-F	11,430	11,130	8/10/2005	5/1/2040	4.2190%	USD-SIFMA Municipal Swap Index + 5bp	(1,169)	36	Wells Fargo Bank, N.A.
MRB 2005-G	4,530	4,720	11/1/2006	11/1/2047	5.4830%	1-Mo LIBOR	(826)	20	Bank of America, N.A.
MRB 2006-A	19,610	19,610	3/15/2006	5/1/2028	3.7150%	63% of 1-Mo LIBOR + 20.5 bp	(2,046)	50	Royal Bank of Canada, New York
MRB 2006-B	6,280	6,280	3/15/2006	5/1/2028	5.4220%	1-Mo LIBOR	(930)	13	Bank of America, N.A.
MRB 2007-G	13,385	13,385	11/1/2007	5/1/2034	4.0100%	63% of 1-Mo LIBOR + 20.5 bp	(2,043)	36	Wells Fargo Bank, N.A.
MRB 2007-I	7,005	7,005	11/1/2007	5/1/2029	5.9100%	1-Mo LIBOR	(1,586)	16	Wells Fargo Bank, N.A.
MRB 2008-B	55,745	57,820	8/21/2008	5/1/2048	4.6330%	USD-SIFMA Municipal Swap Index	(17,556)	403	Wells Fargo Bank, N.A.
MRB 2008-B-HMFA #2190 - Royal Crescent	-	3,485	10/1/2008	11/1/2038	4.4950%	USD-SIFMA Municipal Swap Index + 33bp	(860)	-	Wells Fargo Bank, N.A.
MRB 2008-B-HMFA #1426 - Heritage Village at Manalapan	-	2,900	1/1/2009	11/1/2038	4.4500%	USD-SIFMA Municipal Swap Index + 33bp	(696)	-	Wells Fargo Bank, N.A.
MRB 2008-C	10,180	7,570	11/1/2008	5/1/2040	5.7120%	1-Mo LIBOR	(1,795)	31	Wells Fargo Bank, N.A.
MRB 2008-C-HMFA #2265 - Sharp Road	-	2,600	10/1/2009	11/1/2039	6.1460%	1-Mo LIBOR + 80bp	(963)	-	Wells Fargo Bank, N.A.
MRB 2008-F	96,025	12,200	5/1/2006	11/1/2039	4.3900%	USD-SIFMA Municipal Swap Index	(1,724)	-	JPMorgan Chase Bank, N.A.
MRB 2008-F	-	30,100	2/10/2005	11/1/2029	3.4800%	67% of 1-Mo LIBOR + 18bp	(1,681)	731	Wells Fargo Bank, N.A.
MRB 2008-F	-	31,415	11/1/2006	5/1/2046	4.0493%	60.8% of 1-Mo LIBOR + 34bp	(5,036)	2,197	Bank of America, N.A.
MRB 2008-F	-	13,855	10/30/2007	5/1/2042	4.6120%	USD-SIFMA Municipal Swap Index + 5bp	(692)	227	Merrill Lynch Capital Services, Inc. (MLCS)
MRB 2008-G	14,585	4,000	11/1/2005	5/1/2036	5.4350%	1-Mo LIBOR	(1,020)	-	JPMorgan Chase Bank, N.A.
MRB 2008-G	-	3,350	11/1/2008	11/1/2038	5.6025%	1-Mo LIBOR	(975)	250	Bank of America, N.A.
MRB 2008-G	-	7,240	10/30/2007	11/1/2039	5.8715%	1-Mo LIBOR	(713)	348	Bank of America, N.A.
MRB 2009D HMFA 1437	18,410	1,450	8/1/2008	11/1/2038	5.5660%	1-Mo LIBOR + 25bp	(253)	281	Wells Fargo Bank, N.A.
MRB 2009D HMFA 1352	-	8,020	11/1/2008	11/1/2038	5.5160%	1-Mo LIBOR + 25bp	(1,295)	1,529	Wells Fargo Bank, N.A.
MRB 2009D HMFA 2101	-	1,530	5/1/2009	5/1/2039	5.8570%	1-Mo LIBOR + 40bp	(251)	317	Wells Fargo Bank, N.A.
MRB 2009D HMFA 2171	-	1,435	8/1/2009	11/1/2047	5.8860%	1-Mo LIBOR + 40bp	(652)	300	Wells Fargo Bank, N.A.
MRB 2009D HMFA 2272	-	3,895	9/1/2009	11/1/2039	5.3420%	1-Mo LIBOR + 25bp	(233)	608	Wells Fargo Bank, N.A.
Investment Derivatives: MRB 2007-G	-	9,145	11/1/2007	5/1/2034	4.0100%	63% of 1-Mo LIBOR + 20.5 bp	(1,387)	24	Wells Fargo Bank, N.A.

\* Multi-Family Housing Revenue Bonds

\*\* Multi-Family Revenue Bonds

\$ 18,642

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 18 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Credit Risk**

The aggregate notional outstanding of hedging derivative instrument positions at December 31, 2012 was \$863,273. This portfolio of derivative instruments is used to hedge \$862,330 of variable rate debt as of December 31, 2012.

The swap agreements contain varying collateral agreements with the counterparties. At any point in time in which the outstanding swaps have positive fair values, 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.

**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 SIFMA based swaps and percentage of LIBOR swaps. The Agency's taxable bonds are hedged with taxable, LIBOR-based swaps. In this way, basis risk should be minimized.

**Interest Rate Risk**

The Agency's interest rate swaps serve to guard against a rise in variable interest rates associated with its outstanding variable rate bonds. In addition, certain bond proceeds are invested in variable rate Guaranteed Investment Contracts (GICs) or other variable rate investment obligations in order to further mitigate interest rate risk on the variable rate bonds.

The Agency is invested in a pay-fixed, receive-variable interest rate swap with a notional amount of \$9,145 and \$9,465 at December 31, 2012 and 2011, respectively. The Agency makes semiannual fixed payments to the counterparty of 4.01 percent and receives variable payments based on 63 percent of LIBOR, plus 20.5 basis points. This interest rate swap was executed in November 2007 and matures in May 2034. At December 31, 2012 and 2011, this interest rate swap had a fair value of \$(1,387) and \$(1,408), respectively.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 18 – DERIVATIVE INSTRUMENTS (CONTINUED)**

**Termination Risk**

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

**NOTE 19 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund services are provided or reimbursement occurs, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to move revenues that the Agency must account for in other funds in accordance with various bond and obligation resolutions.

Payable fund:

Multi-Family Housing Revenue Bond Resolution	\$ 889
Other Multi-Family Revenue Bond Resolution	3

<b>Total payable fund</b>	<b>\$ 892</b>
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Receivable fund:

Multi-Family Revenue Bond Resolution	\$ 126
General Fund	766

<b>Total receivable fund</b>	<b>\$ 892</b>
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Interfund transfers:

Transfers in:

Single-Family Housing Revenue Bond Resolution	\$ 63
General Fund	842

<b>Total interfund transfers</b>	<b>\$ 905</b>
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**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 19 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

Transfers out:		
Single-Family Home Mortgage Bond Resolution	\$	62
Multi-Family Housing Revenue Bond Resolution		713
Multi-Family Revenue Bond Resolution		<u>130</u>
<b>Total transfers out</b>	<b>\$</b>	<b><u>905</u></b>

**NOTE 20 – COMMITMENTS AND CONTINGENCIES**

On March 15, 1994, the Agency entered into an Advances, Collateral Pledge and Security Agreement (the Agreement) with the Federal Home Loan Bank of New York. As of December 31, 2012, the available line of credit was \$3,117 and had \$7,109 aggregate amount outstanding which was comprised of four (4) separate fixed rate amortizing advances. Repayments on the advances vary from remaining periods amortizing over 6 years to 30 years, payable monthly at rates ranging from 4.88% to 6.57%.

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.

**NOTE 21 – SUBSEQUENT EVENTS**

On March 11, 2013, Standard & Poor’s Rating Services (S&P) raised its rating to AA- from A+ on the Agency’s Multi-Family Housing Revenue Bonds (MF 1995) resolution, while affirming the Stable outlook.

On March 26, 2013, the Agency issued \$384.7 million in Multi-Family Housing Revenue Bonds (the MF 2013 bonds) to economically refund various bond series previously issued under the Multi-Family Housing Revenue Bonds (MF 1995) resolution. The MF 2013 bond issue included multiple bond series, issued in both fixed rate mode and variable rate (VRDO) mode. The Agency sold the MF 2013 bonds via public underwriting. The pricing of the fixed rate bonds took place on March 19 and 20, 2013, while the VRDOs were priced on March 25, 2013. The transaction is estimated to produce approximately \$26.0 million in after cost present value (PV) debt service savings.

Also on March 26, 2013, and in conjunction with the issuance of the MF 2013 bonds, the Agency terminated the Direct Pay Letter of Credit liquidity facility provided by Dexia Credit Local that supplied credit enhancement for the Agency’s MF 2008 Series 2, 3 and 4 bond series. The MF 2008 Series 2 bonds were converted and remarketed from a variable rate mode (VRDO) to a fixed rate mode simultaneously with the issuance of MF 2013 bonds. The MF 2008 Series 3 and 4 bonds were refunded with a combination of fixed rate bonds and VRDOs. The MF 2013 VRDOs were credit enhanced by a Direct Pay Letter of Credit liquidity facility provided by Citibank, N.A.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 22 – PENDING GASB PRONOUNCEMENTS**

The Agency will be required to implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. The statement requires governmental agencies to consider the treatment of all items reported as assets and liabilities not previously addressed in GASB 63 in the context of the definitions of deferred outflows of resources and deferred inflows of resources. This could result in a change in presentation of these items on the statement of net position. Management will be assessing these items with the implementation of the statement in 2013.

In addition, this statement changes the accounting treatment for bond refunding and debt issuance costs. Debt issuance costs are considered a period expense under the new statement and are expensed as incurred. In addition, debt issuance costs currently reporting in the financial statements are subject to retroactive restatement and will be charged against net position when implemented. The Agency will implement this new statement effective January 1, 2013 which will result in an estimated reduction in net position of approximately \$44.5 million.

**REQUIRED SUPPLEMENTAL INFORMATION**

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**SCHEDULE OF FUNDING PROGRESS**  
**As of December 31, 2012**  
**(In Thousands)**

Actuarial Valuation Date	Actuarial Vaule of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Ratio (b-a)	Funded Payroll (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2007	\$ -	\$ 25,597	\$ 25,597	0.00%	\$ 14,163	180.70%
January 1, 2009	-	29,199	29,199	0.00%	18,466	158.10%
January 1, 2011	-	45,393	45,393	0.00%	18,209	249.30%

**SUPPLEMENTAL INFORMATION**

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**SCHEDULE OF NET POSITION – SINGLE-FAMILY HOUSING PROGRAM**  
**As of December 31, 2012**  
**(In Thousands)**

	FY 2012			2011 Total
	Housing Revenue Bond Resolution	Home Mortgage Bonds	Total	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Restricted cash and cash equivalents	\$ 107,790	\$ 102,179	\$ 209,969	\$ 317,371
Accrued interest receivable on investments	585	-	585	561
Mortgage loans receivable, net	21,892	8,735	30,627	30,050
Due from loan servicers and insurers	2,552	804	3,356	1,650
Total current assets	<u>132,819</u>	<u>111,718</u>	<u>244,537</u>	<u>349,632</u>
<b>NONCURRENT ASSETS</b>				
Restricted investments	59,407	-	59,407	56,191
Mortgage loans receivable, net	878,079	397,167	1,275,246	1,322,508
Debt service arrears receivable, net	12,821	4,138	16,959	8,497
Supplemental mortgages and other loans, net	11,868	4,242	16,110	20,170
Deferred bond issuance costs, net	5,911	2,068	7,979	9,032
Real estate owned	17,232	1,723	18,955	1,513
Total noncurrent assets	<u>985,318</u>	<u>409,338</u>	<u>1,394,656</u>	<u>1,417,911</u>
<b>TOTAL ASSETS</b>	<u>1,118,137</u>	<u>521,056</u>	<u>1,639,193</u>	<u>1,767,543</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	<u>3,088</u>	<u>-</u>	<u>3,088</u>	<u>3,688</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Bonds and obligations, net	\$ 22,515	\$ 11,115	\$ 33,630	\$ 32,375
Accrued interest payable on bonds and obligations	10,640	4,153	14,793	15,736
Interfund allocation	2,033	-	2,033	2,413
Other current liabilities	3,887	306	4,193	1,344
Total current liabilities	<u>39,075</u>	<u>15,574</u>	<u>54,649</u>	<u>51,868</u>
<b>NONCURRENT LIABILITIES</b>				
Bonds and obligations, net	924,646	487,815	1,412,461	1,546,674
Other noncurrent liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total non-current liabilities	<u>924,646</u>	<u>487,815</u>	<u>1,412,461</u>	<u>1,546,674</u>
Total liabilities	<u>963,721</u>	<u>503,389</u>	<u>1,467,110</u>	<u>1,598,542</u>
Interest rate swaps	<u>3,088</u>	<u>-</u>	<u>3,088</u>	<u>3,668</u>
<b>NET POSITION</b>				
Restricted under bond and obligation resolutions	<u>154,416</u>	<u>17,667</u>	<u>172,083</u>	<u>169,001</u>
<b>TOTAL NET POSITION</b>	<u>\$ 154,416</u>	<u>\$ 17,667</u>	<u>\$ 172,083</u>	<u>\$ 169,001</u>

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –**  
**SINGLE-FAMILY HOUSING PROGRAM**  
**Year Ended December 31, 2012**  
**(In Thousands)**

	<b>FY 2012</b>			<b>2011 Total</b>
	<b>Housing Revenue Bond Resolution</b>	<b>Home Mortgage Bonds</b>	<b>Total</b>	
<b>OPERATING REVENUES</b>				
Interest income on mortgages loans	\$ 53,400	\$ 17,758	\$ 71,158	\$ 77,704
Other income, net	2	84	86	2,824
Total revenues	<u>53,402</u>	<u>17,842</u>	<u>71,244</u>	<u>80,528</u>
<b>OPERATING EXPENSES</b>				
Interest and amortization of bond prem/disc	49,399	16,224	65,623	64,244
Insurance costs	-	-	-	39
Servicing fees and other	3,368	1,296	4,664	4,858
Salaries and related benefits	3,246	-	3,246	3,820
Professional services and financing costs	766	158	924	1,248
General and administrative expenses	801	35	836	1,070
Provision for loan losses	(595)	(4,742)	(5,337)	22,448
Total operating expenses	<u>56,985</u>	<u>12,971</u>	<u>69,956</u>	<u>97,727</u>
Operating income (loss)	<u>(3,583)</u>	<u>4,871</u>	<u>1,288</u>	<u>(17,199)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	3,636	194	3,830	3,413
Gain (loss) on sale of real estate owned	(1,473)	(90)	(1,563)	(776)
Loss on early extinguishment of old debt	(437)	(37)	(474)	(560)
Total nonoperating revenues (expenses), net	<u>1,726</u>	<u>67</u>	<u>1,793</u>	<u>2,077</u>
Income (loss) before transfers	<u>(1,857)</u>	<u>4,938</u>	<u>3,081</u>	<u>(15,122)</u>
Transfers	<u>63</u>	<u>(62)</u>	<u>1</u>	<u>1,471</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(1,794)</b>	<b>4,876</b>	<b>3,082</b>	<b>(13,651)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>156,210</u>	<u>12,791</u>	<u>169,001</u>	<u>182,652</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 154,416</u>	<u>\$ 17,667</u>	<u>\$ 172,083</u>	<u>\$ 169,001</u>





**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –**  
**MULTI-FAMILY HOUSING PROGRAM**  
**Year Ended December 31, 2012**  
**(In Thousands)**

	FY 2012					2011 Total
	General					
	Housing Loan	1991-I	1995	2005	Total	
Bond Funds						
<b>OPERATING REVENUES</b>						
Interest income on mortgages loans	\$ 1,328	\$ 7,036	\$ 32,847	\$ 28,939	\$ 70,150	\$ 70,498
Fees and charges	448	135	3,692	2,982	7,257	7,294
Other income - net	426	-	11	1,006	1,443	766
Total operating revenues	<u>2,202</u>	<u>7,171</u>	<u>36,550</u>	<u>32,927</u>	<u>78,850</u>	<u>78,558</u>
<b>OPERATING EXPENSES</b>						
Interest and amortization of bond premium/discounts	1,260	7,489	30,650	26,123	65,522	65,568
Insurance costs	-	-	303	183	486	500
Servicing fees and other	-	270	-	-	270	270
Salaries and related benefits	-	-	3,003	2,007	5,010	4,717
Professional services and financing costs	53	7	413	472	945	1,055
General and administrative expenses	-	-	741	496	1,237	1,406
Provision for loan losses	573	-	(28,773)	8,842	(19,358)	20,146
Total operating expenses	<u>1,886</u>	<u>7,766</u>	<u>6,337</u>	<u>38,123</u>	<u>54,112</u>	<u>93,662</u>
Operating income (loss)	<u>316</u>	<u>(595)</u>	<u>30,213</u>	<u>(5,196)</u>	<u>24,738</u>	<u>(15,104)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment income	11	489	3,595	2,340	6,435	7,867
Loss on early extinguishment of old debt	-	-	(66)	(23)	(89)	(22)
Total nonoperating revenues (expenses), net	<u>11</u>	<u>489</u>	<u>3,529</u>	<u>2,317</u>	<u>6,346</u>	<u>7,845</u>
Income (loss) before transfers	327	(106)	33,742	(2,879)	31,084	(7,259)
<b>TRANSFERS</b>	<u>-</u>	<u>(1)</u>	<u>(712)</u>	<u>(130)</u>	<u>(843)</u>	<u>(192)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	327	(107)	33,030	(3,009)	30,241	(7,451)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,809</u>	<u>(54)</u>	<u>68,440</u>	<u>76,061</u>	<u>146,256</u>	<u>153,707</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,136</u>	<u>\$ (161)</u>	<u>\$ 101,470</u>	<u>\$ 73,052</u>	<u>\$ 176,497</u>	<u>\$ 146,256</u>

**REPORT ON SINGLE AUDIT**



**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Directors  
New Jersey Housing and Mortgage Finance Agency  
Trenton, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate discretely presented component units of the New Jersey Housing and Mortgage Finance Agency (the Agency), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated May 21, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Agency in a separate letter dated May 21, 2013.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Baltimore, Maryland  
May 21, 2013

**Independent Auditor's Report on Compliance for Each Major Program;  
Report on Internal Control Over Compliance; and Report on the Schedule of  
Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Directors  
New Jersey Housing and Mortgage Finance Agency  
Trenton, New Jersey

**Report on Compliance for Each Major Federal Program**

We have audited New Jersey Housing and Mortgage Finance Agency's (the Agency) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2012. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

## **Report on Internal Control Over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the business-type and the aggregate discretely presented component units of the Agency as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated May 21, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
May 21, 2013

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2012**

<u>Federal Grantor/ program title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Lower Income Rental Assistance:		
Section 8 Moderate Rehab Section 8 Moderate Rehab fees earned	14.856	\$ 5,750,555
Section 8 New Construction and Substantial Rehab <i>Section 8 New Construction and Sub Rehab - Contract Administration</i>	\$ 120,182,302	
Total Section 8 New Construction and Substantial Rehab	<u>316,368,819</u>	<u>436,551,121</u>
<b>Total Section 8 Project-Based Cluster</b>		<u>442,301,676</u>
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families (Section 236)	14.103	18,024,796
Community Investment Program	14.182	292,549
Shelter Plus Care	14.238	109,499
Supportive Housing Program	14.235	712,356
ARRA - Tax Credit Assistance Program (Recovery Act Funded)	14.258	<u>1,318,977</u>
<b>Total Department of Housing and Urban Development</b>		<u>462,759,853</u>
Department of the Treasury:		
Passed-through Neighborworks America: National Foreclosure Mitigation Counseling	21.000	<u>1,126,482</u>
<b>Total Department of the Treasury</b>		<u>1,126,482</u>
Department of Energy:		
Passed-through New Jersey Board of Public Utilities:		
State Energy Program - SOLAR	5,009,708	
State Energy Program - HESP	<u>838,887</u>	
Total State Energy Program	81.041	5,848,595
Passed-through New Jersey Department of Community Affairs: Weatherization Assistance Program	81.042	<u>18,755,527</u>
<b>Total Department of Energy</b>		<u>24,604,122</u>
<b>Total Federal Expenditures</b>		<u>\$ 488,490,457</u>



**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**December 31, 2012**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the New Jersey Housing and Mortgage Finance Agency and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2012**

**I. Summary of Independent Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  None

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with *Section 510(a)* of Circular A-133? \_\_\_\_\_ Yes  X  No

**Identification of Major Programs**

Name of Federal Program or Cluster	CFDA Number(s)	Amount
Section 8 Project-Based Cluster	14.182, 14.856	\$ 442,301,676
Interest Reduction Payment – Section 236	14.103	18,024,796
State Energy Grant	81.041	5,848,595
Weatherization Assistance Program	81.042	18,755,527

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2012**

**II. Financial Statement Findings**

**None reported.**

**III. Federal Award Findings and Questioned Costs**

**None reported.**

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**There were no prior year audit findings.**