

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis,  
Basic Financial Statements, and  
Supplementary Information

September 30, 2010 and 2009

(Unaudited)

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Management of the Virginia Housing Development Authority (the Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the three months ended September 30, 2010 and 2009. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

**Organization Overview**

The Authority is a political subdivision of the Commonwealth of Virginia, created under the Virginia Housing Development Authority Act (the Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation, and ownership of affordable housing for home ownership or occupancy by low-or moderate-income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax-exempt and taxable notes and bonds to investors. Such notes, bonds, and other indebtedness are not obligations of the Commonwealth of Virginia (the Commonwealth) and the Commonwealth is not liable for repayments of such obligations. Furthermore, as a self-sustaining organization, the Authority does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income from bond proceeds and earnings accumulated since inception.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multifamily housing projects. The Authority also underwrites Resources Enabling Affordable Community Housing (REACH Virginia) initiatives, in which the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net assets used to provide reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 15% of the average of the Authority's change in net assets, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31 *Certain Investments and External Investment Pools*, for the preceding three fiscal years. The Authority may use a higher amount if determined to be appropriate. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

**Financial Statements**

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the accompanying notes.

The *Statement of Net Assets* reports all of the Authority's assets and liabilities, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and liabilities is presented as net assets, and is displayed in three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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The *Statement of Revenues, Expenses, and Changes in Net Assets* identify all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgage loans, externally funded programs and other revenue sources.

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. These statements provide information regarding the sources and uses of cash and the change in cash during the reporting period.

The *Notes to Financial Statements* provide additional information that are essential for understanding financial data that may not be displayed on the face of the financial statements and as such, are an integral part of the Authority's basic financial statements.

### **Financial Highlights**

#### ***Overview***

The Authority has maintained a stable financial position a period of continued challenges in the housing industry and broader economy. Programs and services have been primarily aimed toward continued loan availability and down-payment assistance for qualified first time homebuyers, loan loss mitigation, use of GNMA securities and Treasury's New Issue Bond Program as funding sources, and continual review of bond market opportunities. Amid this period of significant transition, economic uncertainty, and major housing finance and policy shift at the national level, the Authority has successfully sustained its services despite limited financing options, rising delinquencies and foreclosures and nominal investment earnings.

The Authority has reviewed its core programs and services to better access cost-effective capital to support its lending programs and assess underwriting risks resulting from market challenges associated with its lending programs. In response to higher loan losses, higher reserve requirements have been established. Since the Authority services substantially all of its single family loans, efforts aimed at working with troubled borrowers and mitigating potential foreclosure losses have been paramount. The Borrower Assistance Program has provided an avenue to prevent foreclosure through loan modification for otherwise responsible borrowers encountering financial hardships beyond their control and has continued to participate in foreclosure prevention awareness initiatives. The Authority's homeownership education, underwriting and loss mitigation practices has also helped restrain delinquency and foreclosure rates below those for Virginia and the nation.

Since last December, the Authority has utilized the Homeownership Mortgage Bond Group pursuant to the U. S. Treasury's New Issuance Bond Program, created to assist state and local housing finance agencies in acquiring cost effective capital for mortgage lending. state and local housing finance agencies in acquiring cost effective capital for mortgage lending. Under this program, the Authority has issued \$482.9 million short-term variable rated bonds to Treasury, which represents 60% of the total issue. These amounts are to be held in escrow until converted, no later than December 31, 2011 upon the issuance of the remaining 40% to the general public. Capital funds raised from this program have helped to sustain the Authority's tax-exempt homeownership mortgage loan production into the next fiscal year.

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During the quarter, 297 single-family mortgage loans valued at \$42.9 million were securitized by GNMA, bringing the securitized loan total to \$284.0 million. Also during the quarter, Rental Housing bonds were issued for \$44.8 million.

Operating income for the quarter ended September 30, 2010 was \$21.2 million, an increase of \$0.2 million from the prior year. With the inclusion of nonoperating income, consisting primarily of investment income, net assets increased for the quarter by \$23.9 million compared to a \$20.9 million increase last year.

***Three Months Ended September 30, 2010***

Homeownership loan originations totaled 710 in the first quarter of fiscal year (FY) 2011 compared to 1,111 for the same period last year. Since expiration of the federal Homebuyer Tax Credit program, coupled with a prolonged consequence of market aversion to taxable bond resources and conservation of available tax-exempt bond resources, mortgage loan production has decreased.

As of September 30, 2010 the Authority serviced 53,692 first and second homeownership mortgage loans with outstanding balances totaling \$5.2 billion. The number of loans serviced, net of prepayments, increased 2,939 or 5.8% since September 30, 2009 while outstanding loan balances increased \$85.6 million or 1.7% as of the same date. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.33% for the first quarter of FY 2011, compared to 9.09% a year ago. Delinquency rates based on outstanding loan balances averaged 6.09% and 5.17% in the first quarter of FY 2011 and FY 2010, respectively. In the first quarter of FY 2011 there were foreclosures valued at \$20.3 million or 0.39% of the homeownership loan portfolio, compared to a year ago with foreclosures valued at \$22.4 million or 0.45% of loan amounts. Recovery rates averaging 75% and higher, significantly mitigated the impact of loan losses.

Financing commitments were made for 13 rental housing projects during the quarter, representing 1,202 units totaling \$89.89 million, compared to 10 projects and 783 units totaling \$68.13 million for the same quarter a year ago. Rental housing development and rehabilitation, driven in part by the recent federal tax credit exchange and assistance programs, as well as tax-exempt and taxable bond sources, has exceeded last year's levels.

As of September 30, 2010 the Authority serviced 1,510 rental mortgage loans with outstanding balances totaling \$3.36 billion. Compared to September 30, 2009, the number of loans in the portfolio increased 53 or 3.6% and the loan balances increased \$93.61 million or 2.9%. Delinquency rates based on portfolio loan count averaged 1.91% and 1.54% in the first quarter of FY 2011 and FY 2010, respectively. The average delinquency rates in the first quarter based on outstanding loan balances were 0.62% or \$20.36 million compared to 0.40% or \$12.79 million in FY 2010. During the first quarter no foreclosed rental properties were acquired.

***Three Months Ended September 30, 2009***

Homeownership loan originations totaled 1,111 in the first quarter of fiscal year (FY) 2010 compared to 1,449 for the same period last year. Mortgage loan production decreased by 338 or 23.3% as a consequence of market aversion to taxable bond resources.

As of September 30, 2009, the Authority serviced 50,753 first and second homeownership mortgage loans with outstanding balances totaling \$5.14 billion. The number of loans serviced, net of prepayments, increased 2,935 or 6.1% since September 30, 2008 while outstanding loan balances increased \$104.11 million or 2.1% as of the same date. In the first quarter of FY 2010, there were 159 foreclosures valued at \$22.4 million or 0.45% of the

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homeownership loan portfolio, compared to a year ago with 48 foreclosures valued at \$6.5 million or 0.13% of loan amounts. Delinquency rates on the portfolio loan count of first mortgage loans averaged 9.09% for the first quarter of FY 2010, compared to 6.35% a year ago. Delinquency rates based on outstanding loan balances averaged 5.17% and 2.47% in the first quarter of FY 2010 and FY 2009, respectively. The recovery rate on foreclosed houses has averaged 75% over the last twelve months.

Financing commitments were made for 10 rental housing projects during the quarter, representing 783 units totaling \$68.13 million, compared to 17 projects and 827 units totaling \$62.7 million for the same quarter a year ago. Volatility in interest rates coupled with diminishing property available for developing affordable rental housing stock constrained FY 2010 activity.

As of September 30, 2009 the Authority serviced 1,457 rental mortgage loans with outstanding balances totaling \$3.26 billion. Compared to September 30, 2008, the number of loans in the portfolio increased 62 or 4.4% and the loan balances increased \$122.20 million or 3.9%. Delinquency rates based on portfolio loan count averaged 1.54% and 1.17% in the first quarter of FY 2010 and FY 2009, respectively. The average delinquency rates in the first quarter based on outstanding loan balances were 0.40% or \$12.79 million compared to 0.22% or \$6.73 million in FY 2009.

**Financial Analysis of the Authority**

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service reserve funds required by bond indenture, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family projects, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 projects, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in Virginia banks are secured under the Virginia Security for Public Deposits Act of the Code of Virginia.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by Standard & Poor's and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal asset. Mortgage loans are financed through a combination of proceeds of notes and bonds and net assets accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds. The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain strong long-term ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, from Moody's and Standard & Poor's, respectively. Net assets comprise capital assets, net of related debt, and restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. *Restricted net assets* represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted*

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*net assets* represent a portion of net assets that have been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

**Condensed Statement of Net Assets**

(In millions)

	September 30		
	2010	2009	2008
Cash and cash equivalents	\$ 1,354.4	990.5	948.1
Investments	143.9	101.7	236.6
Mortgage loans held for sale	—	8.5	—
Mortgage and other loans receivable, net	8,037.5	8,108.4	8,024.1
Other assets	169.9	148.4	146.8
Total assets	<u>9,705.7</u>	<u>9,357.5</u>	<u>9,355.6</u>
Notes and bonds payable, net	7,080.3	6,845.9	6,900.5
Other liabilities	379.7	371.3	378.1
Total liabilities	<u>7,460.0</u>	<u>7,217.2</u>	<u>7,278.6</u>
Invested in capital assets, net of related debt	0.7	3.7	3.9
Restricted by bond indentures	2,097.6	1,973.3	2,023.2
Unrestricted	147.4	163.3	49.9
Net assets	<u>\$ 2,245.7</u>	<u>2,140.3</u>	<u>2,077.0</u>

***September 30, 2010 Compared to September 30, 2009***

Total assets increased by \$348.2 million from the prior year. Cash and cash equivalents, and investments, combined, increased \$406.0 million, or 37.2% from the prior year. Mortgage and other loans receivables decreased by \$70.9 million, or 0.9%, due to a \$27.1 million increase in the allowance for loan loss and reduced homeownership loan originations during the first quarter of FY 2011.

Total liabilities increased \$242.8 million, or 3.4% from the prior year. Notes and bonds payable increased \$234.4 million, or 3.4% from the prior year. Over the last twelve months, the Authority issued \$642.0 million in single-family homeownership bonds, \$137.9 million in rental housing bonds, and borrowed a net \$215.9 million on lines of credit. Under the New Issuance Bond Program, the Authority has converted \$161.0 million of the \$482.9 million short-term variable rate bonds issued to Treasury. Proceeds from bond issues and lines of credit were a principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,245.7 million, representing an increase in net assets of \$105.4 million, or 4.9% from the prior year. As of September 30, 2010, net assets invested in capital assets, net of related debt, consisted of \$52.8 million in investments in rental property, net of depreciation and amortization and \$23.0 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds

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payable of \$75.1 million. Net assets restricted by bondholders totaled \$2,097.6 million, an increase of \$124.3 million, or 6.3% from the prior year. Unrestricted net assets totaled \$147.4 million, a decrease of \$15.9 million, or 9.7% from the prior year.

***September 30, 2009 Compared to September 30, 2008***

Total assets increased slightly by \$1.9 million from the prior year. Cash and cash equivalents, and investments, combined, decreased \$92.5 million, or 7.8% from the prior year. Mortgage and other loans receivables increased by \$84.3 million, or 1.1%, largely as a result of new homeownership loan originations less mortgage loan transfers to GNMA.

Total liabilities decreased \$61.4 million, or 0.8% from the prior year. Notes and bonds payable decreased \$54.6 million, or 0.8% from the prior year. Over the last twelve months, the Authority issued \$255.5 million in single-family homeownership bonds, \$502.2 million in rental housing bonds, the majority of which was used to finance the redemption of the Multifamily Housing bonds, and repaid a net \$29.6 million on lines of credit. Proceeds from bond issues and lines of credit were a principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,140.3 million, representing an increase in net assets of \$63.3 million, or 3.0% from the prior year. As of September 30, 2009, net assets invested in capital assets, net of related debt, consisted of \$45.9 million in investments in rental property, net of depreciation and amortization and \$22.7 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of \$64.9 million. Net assets restricted by bondholders totaled \$1,973.3 million, a decrease of \$49.9 million, or 2.5% from the prior year. Unrestricted net assets totaled \$163.3 million, an increase of \$113.4 million, or 227.3% from the prior year.

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**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

(In millions)

	<b>Three months ended September 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>			
Interest on mortgage and other loans	\$ 126.8	128.5	128.3
Pass-through grants received	45.9	17.8	16.9
Housing Choice Voucher program income	18.2	16.3	14.2
Other operating revenues	6.5	6.3	4.4
Total operating revenues	<u>197.4</u>	<u>168.9</u>	<u>163.8</u>
<b>Operating expenses:</b>			
Interest on notes and bonds payable	82.2	87.1	87.5
Pass-through grants disbursed	45.9	17.8	16.9
Housing Choice Voucher program expense	17.2	17.7	17.0
Other operating expenses	30.9	25.3	18.4
Total operating expenses	<u>176.2</u>	<u>147.9</u>	<u>139.8</u>
Net operating income	<u>21.2</u>	<u>21.0</u>	<u>24.0</u>
<b>Nonoperating revenues:</b>			
Investment income (loss)	2.7	(0.1)	11.3
Other nonoperating revenues	—	—	—
Total nonoperating revenues (losses)	<u>2.7</u>	<u>(0.1)</u>	<u>11.3</u>
Change in net assets	<u>\$ 23.9</u>	<u>20.9</u>	<u>35.3</u>

The principal determinants of the Authority's change in net assets (more commonly referred to as excess revenues) are operating revenues less operating expenses plus nonoperating revenues.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominantly of interest expense on notes and bonds payable and operating expenses of the Authority. Nonoperating revenues consist of investment earnings as well as realized and unrealized gains or losses on the sale of investments.

***Three months ended September 30, 2010***

Operating revenues increased \$28.5 million or 16.9% from the prior year. The increase was primarily attributable to Pass-through grants of \$28.1 million. Interest on mortgage and other loans decreased \$1.7 million reflecting significantly fewer loan originations held compared to the previous year. Interest as a percent of average loans outstanding was 6.28% compared to 6.33% the previous year.

Operating expenses increased \$28.3 million or 19.1% compared to the first quarter of FY 2010. Interest expense on notes and bonds payable decreased \$4.9 million or 5.6% from the prior year. Loan losses and expenses, included in operating expenses, increased \$4.0 million compared to the same quarter in FY 2010. Administrative

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costs increased \$1.6 million, primary due to owned property expenses, compared to the same quarter in FY 2010. Expenses for the Housing Choice Voucher program decreased \$0.5 million or 2.8% from the prior year.

Nonoperating revenues increased \$2.8 million compared to the prior year, due to lower realized investment losses and higher investment income.

***Three months ended September 30, 2009***

Operating revenues increased \$5.1 million or 3.1% from the prior year. The increase was primarily attributable to higher federal funding in the Housing Choice Voucher program (\$2.1 million) and Pass-through grants (\$0.9 million). Interest on mortgage and other loans increased \$0.2 million reflecting significantly fewer loan originations held compared to the previous year and a shift toward increased securitization of loans through GNMA. Interest as a percent of average loans outstanding was 6.33% compared to 6.43% the previous year.

Operating expenses increased \$8.1 million or 5.8% compared to the first quarter of FY 2009. Interest expense on notes and bonds payable decreased \$0.4 million or 0.5% from the prior year. Loan losses and expenses, included in operating expenses, increased \$9.1 million compared to the same quarter in FY 2009. Conversely, administrative costs decreased \$2.2 million. Expenses for the Housing Choice Voucher program increased \$0.7 million or 4.1% over last year.

Nonoperating revenues decreased \$11.4 million or 100.9% compared to the prior year, due to realized investment losses and reduced investment income resulting from lower interest rates.

**Other Economic Factors**

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Short-term investment rates in the United States have declined sharply from approximately 5.0% in July 2007 to less than 0.15% in September 2010.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multifamily loan portfolio, are influenced by unemployment. Virginia's average unemployment rate increased from 6.6% in September 2009 to 7.0% in September 2010.

**Additional Information**

If you have questions about this report or need additional information, please visit the Authority's Web site, [www.vhda.com](http://www.vhda.com), or contact the Finance Division of the Virginia Housing Development Authority.

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Statements of Net Assets

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Assets	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (note 5)	\$ 1,354,353,785	990,491,115
Investments (note 5)	3,442,722	8,576,041
Interest receivable – investments	773,520	705,423
Mortgage loans held for sale	—	8,527,788
Mortgage and other loans receivable (note 4)	160,128,613	155,650,164
Interest receivable – mortgage and other loans	38,957,059	38,916,484
Housing Choice Voucher contributions receivable (note 1)	12,837	51,891
Other real estate owned	35,900,765	20,115,869
Other assets	10,705,546	9,741,774
Total current assets	<u>1,604,274,847</u>	<u>1,232,776,549</u>
Noncurrent assets:		
Investments (note 5)	140,433,458	93,146,161
Mortgage and other loans receivable (note 4)	8,020,403,114	8,067,835,138
Less allowance for loan loss	115,449,711	88,383,786
Less net deferred loan fees	27,592,214	26,725,028
Mortgage and other loans receivable, net	<u>7,877,361,189</u>	<u>7,952,726,324</u>
Investment in rental property, net	52,279,814	45,940,029
Property, furniture, and equipment, less accumulated depreciation and amortization of \$27,556,610 and \$25,671,527, respectively (note 6)	24,099,175	24,489,967
Unamortized bond issuance expenses	6,301,341	7,463,237
Other assets	942,383	967,478
Total noncurrent assets	<u>8,101,417,360</u>	<u>8,124,733,196</u>
Total assets	<u>\$ 9,705,692,207</u>	<u>9,357,509,745</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 704,053,350	473,851,588
Accrued interest payable on notes and bonds	96,818,197	104,445,811
Escrows (note 8)	57,943,619	57,531,492
Accounts payable and other liabilities (notes 5 and 9)	17,096,771	17,304,743
Total current liabilities	<u>875,911,937</u>	<u>653,133,634</u>
Noncurrent liabilities:		
Bonds payable, net (note 7)	6,376,290,097	6,372,027,458
Project reserves (notes 8 and 13)	180,776,730	165,006,734
Other liabilities (notes 5, 9, 11, and 13)	27,013,104	27,056,362
Total noncurrent liabilities	<u>6,584,079,931</u>	<u>6,564,090,554</u>
Total liabilities	<u>7,459,991,868</u>	<u>7,217,224,188</u>
Net assets (note 10):		
Invested in capital assets, net of related debt	692,632	3,718,858
Restricted by bond indentures (note 3)	2,096,361,533	1,973,297,579
Unrestricted	148,646,174	163,269,120
Total net assets	<u>2,245,700,339</u>	<u>2,140,285,557</u>
Total liabilities and net assets	<u>\$ 9,705,692,207</u>	<u>9,357,509,745</u>

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Three months ended September 30, 2010 and 2009

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	2010	2009
Operating revenues:		
Interest on mortgage and other loans	\$ 126,839,810	128,547,053
Pass-through grants income	45,876,753	17,826,248
Housing Choice Voucher program income	18,176,202	16,343,726
Investment in rental property income	3,128,032	3,432,792
Gains and recoveries on sale of other real estate owned	377,855	81,937
Other	3,009,842	2,670,495
Total operating revenues	197,408,494	168,902,251
Operating expenses:		
Interest on notes and bonds	82,172,856	87,099,287
Salaries and related employee benefits (note 11)	7,663,944	7,205,483
General operating expenses	3,770,646	3,467,380
Note and bond expenses	(42,655)	52,985
Amortization of bond issuance expenses	167,855	106,343
Pass-through grants expenses	45,876,753	17,826,248
Housing Choice Voucher program expenses	17,257,237	17,733,165
External mortgage servicing expenses	322,323	341,970
Investment in rental property expenses	3,929,660	2,948,871
Losses and expenses on other real estate owned	6,173,401	3,924,579
Provision for loan losses	8,960,263	7,241,890
Total operating expenses	176,252,283	147,948,201
Operating income	21,156,211	20,954,050
Nonoperating revenues (losses):		
Investment loss (note 9)	(39,382)	(12,072,118)
Net increase in fair value of investments	2,748,131	11,979,438
Other, net	22,324	10,205
Total nonoperating revenues (losses)	2,731,073	(82,475)
Change in net assets	23,887,284	20,871,575
Total net assets, beginning of year	2,221,813,055	2,119,413,982
Total net assets, end of three months	\$ 2,245,700,339	2,140,285,557

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Three months ended September 30, 2010 and 2009

(Unaudited)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (203,044,429)	(249,952,110)
Principal repayments on mortgage and other loans	172,914,103	213,337,371
Sale of mortgage loans	42,896,802	67,117,270
Interest received on mortgage and other loans	125,824,457	128,497,555
Pass-through grants received	45,876,753	17,826,248
Pass-through grants disbursed	(45,876,753)	(17,826,248)
Housing Choice Voucher payments received	18,155,813	16,563,317
Housing Choice Voucher payments disbursed	(17,361,390)	(17,763,839)
Escrow and project reserve payments received	81,944,536	62,401,266
Escrow and project reserve payments disbursed	(61,038,512)	(45,829,395)
Other operating revenues	4,067,246	10,312,611
Cash received for loan origination fees	1,465,288	2,028,228
Cash paid for loan origination fees	(1,837,374)	(1,679,183)
Cash payments for salaries and related benefits	(7,975,796)	(9,654,139)
Cash payments for general operating expenses	(8,953,607)	(7,351,399)
Cash payments for mortgage servicing expenses	(278,021)	(316,822)
Proceeds from sale of other real estate owned	5,427,848	4,040,666
Investment in rental property	1,274,391	(25,332,819)
Net cash provided by operating activities	<u>153,481,355</u>	<u>146,418,578</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	123,190,000	120,103,000
Principal payments on notes and bonds	(111,907,103)	(153,313,175)
Interest payments on notes and bonds	(89,082,683)	(94,625,185)
Cash payments for bond issuance expenses	(504,762)	(429,913)
Net cash used in noncapital financing activities	<u>(78,304,548)</u>	<u>(128,265,273)</u>
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	<u>(293,967)</u>	<u>(738,950)</u>
Cash flows from investing activities:		
Purchases of investments	(23,153,447)	(134,339,156)
Proceeds from sales or maturities of investments	82,363,160	127,788,453
Interest received on investments	1,384,206	1,095,695
Net cash provided by (used in) investing activities	<u>60,593,919</u>	<u>(5,455,008)</u>
Net increase in cash and cash equivalents	135,476,759	11,959,347
Cash and cash equivalents, at beginning of year	<u>1,218,877,026</u>	<u>978,531,768</u>
Cash and cash equivalents, at end of three months	<u>\$ 1,354,353,785</u>	<u>990,491,115</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Three months ended September 30, 2010 and 2009

(Unaudited)

	<b>2010</b>	<b>2009</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 21,156,211	20,954,049
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of property, furniture, and equipment	694,330	702,776
Other depreciation and amortization	1,198,595	614,003
Interest on notes and bonds	82,172,856	87,099,286
Increase in investment in rental property, net	(7,003,016)	(25,317,996)
Decrease in mortgage and other loans receivable	29,586,885	18,269,946
Increase in allowance for loan loss	8,960,263	7,225,580
Increase in net deferred loan fees	197,302	751,357
(Increase) decrease in interest receivable – mortgage and other loans	(599,103)	523,951
(Increase) decrease in other real estate owned	(1,457,836)	16,648,903
(Increase) decrease in Housing Choice Voucher contributions receivable	(20,389)	219,591
Decrease in other assets	1,146,934	7,511,401
Decrease in accounts payable and other liabilities	(3,457,701)	(5,356,140)
Increase in escrows and project reserves	20,906,024	16,571,871
Net cash provided by operating activities	\$ 153,481,355	146,418,578
Supplemental disclosure of noncash investing activity:		
Increase in other real estate owned as a result of loan foreclosures	\$ 14,899,840	10,166,392

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

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

**(a) Organization**

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act empowers the Authority, among other authorized activities, to finance the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income. Mortgage loans are generally made with the proceeds of notes, bonds, or other debt obligations issued by the Authority. The notes, bonds and other debt obligations do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia (the Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other similar types of funds, are combined to form the Enterprise Funds of the Commonwealth. The Authority reports all of its activities as one enterprise fund, in accordance with U.S. generally accepted accounting principles (GAAP). See note 2 for further discussion.

**(b) Measurement Focus and Basis of Accounting**

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the authorizing act and the various note and bond resolutions. As provided for in Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

**(c) Use of Estimates**

The preparation of basic financial statements, in conformity with GAAP, requires management to make estimates and judgments that affect reported amounts of assets and liabilities and the disclosures of contingencies at the date of the basic financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

**(d) Investments**

Investments are reported at fair market value on the Statements of Net Assets, with changes in fair market value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Assets. Fair market value is determined by reference to published market prices and quotations from national security exchanges and securities pricing services.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

**(e) *Investment in Rental Property***

Investment in rental property represents several multi-family apartment complexes, including the related property, furniture, and equipment. These assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, which are 30 years for buildings, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investments are carried net of accumulated depreciation of \$13,351,166 as of September 30, 2010 and \$12,156,577 as of September 30, 2009. These investments are also tested for impairment when triggers are identified.

**(f) *Mortgage and Other Loans Receivable***

Mortgage loans held for sale are recorded at the lower of cost or fair value. These loans are in the process of being transferred to Ginnie Mae in return for investment securities which the Authority intends to sell. Mortgage and other loans receivable are stated at their unpaid principal balance, net of deferred loan fees and costs and an allowance for loan losses. The Authority charges loan fees to mortgagors. These fees, net of direct costs, are deferred and amortized, using the interest method, over the contractual life of the loans as an adjustment to yield. The interest method is computed on a loan-by-loan basis and any unamortized net fees on loans fully repaid or restructured are recognized as income in the year in which such loans are repaid or restructured.

The Authority is an Issuer in the Government National Mortgage Association (Ginnie Mae) Mortgage-Backed Securities (MBS) Programs. Through the Ginnie Mae MBS Programs, Ginnie Mae guarantees securities that are issued by the Authority and backed by pools of mortgage loans originated by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Accordingly, the Authority no longer recognizes the sold mortgage loans receivable in the Statements of Net Assets.

**(g) *Allowance for Loan Losses***

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment, to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was \$8,960,263 and \$7,241,890 for the three months ended September 30, 2010 and 2009, respectively.

**(h) *Property, Furniture, and Equipment***

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment is \$1,000.

Effective July 1, 2009 the Authority, in accordance with GASB Statement No. 51 — Accounting and Financial Reporting for Intangible Assets, capitalized certain costs associated with internally

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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

generated computer software. Once the software is ready for its intended use, these costs will be amortized on a straight-line basis over the software's expected useful life.

**(i) Bond Issuance Expense**

Costs related to issuing bonds are capitalized in the related bond group and are amortized on the straight-line basis over the lives of the bonds.

**(j) Other Real Estate Owned**

Other real estate owned represents current investments in rental property, acquired primarily through foreclosure, and is stated at the lower of cost or fair value less estimated disposal costs. Gains and losses from the disposition of other real estate owned are reported separately in the Statements of Revenues, Expenses, and Changes in Net Assets.

**(k) Notes and Bonds Payable**

Notes and bonds payable are stated at their unpaid balance less any unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also generally has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which will be subject to partial redemption, without premium, from mandatory sinking fund installments.

**(l) Retirement Plans**

The Authority has three defined contribution employees' retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

The Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, at July 1, 2007. GASB Statement No. 45 provisions consist of standards for the measurement, recognition, and disclosure of OPEB expenses and actuarially accrued liabilities associated with OPEB as well as the extent to which progress has been made in funding the plan. Additional details on the implementation of GASB Statement No. 45 are disclosed in note 12.

**(m) Compensated Absences**

Authority employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination, or death, may be compensated for certain amounts at their then current

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Notes to Basic Financial Statements

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(Unaudited)

rates of pay. The amount of vacation and sick pay recognized as expense is the amount earned each year.

**(n) Pass-Through Revenues and Expenses**

**U.S. Department of Housing and Urban Development – Project Based Section 8**

As the Commonwealth administrator for the Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling \$18,319,735 and \$17,826,248 during the three months ended September 30, 2010 and 2009, respectively.

**U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program**

The Authority serves as an administrator for twenty eight HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. There were \$51,581 in Housing Counseling Assistance Program pass-through revenues and expenses during the three months ended September 30, 2010 and none for the same period last year.

**NeighborWorks America**

The Authority is an administrator for NeighborWorks America, a national nonprofit organization created by Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Thirteen nonprofit agencies are assisted by NeighborWorks funds administered by the Authority. There were \$55,824 in NeighborWorks America pass-through revenues and expenses during the three months ended September 30, 2010 and none for the same period last year.

**U.S. Department of Housing and Urban Development – Tax Credit Assistance Program**

The Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects via a formula-based allocation to State housing credit allocation agencies. The Authority is the housing credit administrator in the Commonwealth. The housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. The Authority received and disbursed \$9,369,914 of assistance during the three months ended September 30, 2010 and none for the same period in 2009.

**U.S. Department of the Treasury – Low-Income Housing Grants in Lieu of Tax Credit Allocations for 2009 (Tax Credit Exchange)**

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(Unaudited)

As the housing credit administrator for the Commonwealth, the Authority administers the Tax Credit Exchange program, which was created by the American Recovery and Reinvestment Act of 2009. Grants are received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The Authority received and disbursed \$18,079,699 of assistance during the three months ended September 30, 2010 and none for the same period in 2009.

**(o) *Housing Choice Voucher Program***

As the Commonwealth administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income.

Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the Statements of Revenues, Expenses and Changes in Net Assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled \$3,821,266 and \$1,421,520, respectively, as of September 30, 2010 and \$2,184,828 and \$1,209,521 respectively, as of September 30, 2009. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

**(p) *Commonwealth Priority Housing Fund***

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Funds. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of \$8,215,709 and \$8,294,761 as of September 30, 2010 and 2009, respectively.

**(q) *Cash Equivalents***

For purposes of the Statements of Cash Flows, cash equivalents consist of investments with original maturities of three months or less from the date of purchase.

**(r) *Rebatable Arbitrage***

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

(s) ***Statement of Net Assets***

The assets presented in the Statement of Net Assets represent the total of similar accounts of the Authority's various groups (note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

(t) ***Operating and Nonoperating Revenues and Expenses***

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(u) ***Reclassifications***

Certain reclassifications have been made in the September 30, 2009 basic financial statements to conform to the September 30, 2010 presentation.

(2) **Basis of Presentation**

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

(a) ***General Operating Accounts***

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes and bonds and the payment of expenses related to the Authority's administrative functions.

(b) ***Rental Housing Bond Group***

The proceeds of the Rental Housing Bonds are used to finance construction and permanent loans on multi-family development projects, as well as, permanent financing for owned rental property.

(c) ***VHDA General Purpose Bond Group***

The proceeds of the General Purpose Bonds are used to finance construction and permanent loans on multi-family projects, loans on single-family dwellings, as well as, permanent financing for owned rental property and the Authority's office facilities.

(d) ***Commonwealth Mortgage Bond Group***

The proceeds of Commonwealth Mortgage Bonds are used to purchase or make long-term loans to owner occupants of single-family dwelling units, as well as, temporary financing for other real estate owned.

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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

**(e) Homeownership Mortgage Bond Group**

The Homeownership Mortgage bond group was established on December 2, 2009 and encompasses the Authority's participation in the U. S. Department of the Treasury Single Family New Issue Bond Program which was created to assist state and local housing finance agencies acquire cost-effective mortgage loan capital.

**(3) Restricted Assets**

Restricted assets are primarily assets held for the benefit of the respective bond owners and include mortgage loans, debt service and debt reserves, and investments. Certain assets are held on behalf of Federal programs or housing initiatives of the Commonwealth.

Restricted assets as of September 30, 2010 and 2009 were as follows:

	September 30	
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 953,393,844	766,621,001
Investments	—	8,576,041
Interest receivable – investments	412,649	182,013
Mortgage loans held for sale	—	8,527,788
Mortgage and other loans receivable	157,988,042	153,592,734
Interest receivable – mortgage and other loans	37,927,921	37,760,382
Other real estate owned	35,543,804	19,021,735
Housing Choice Voucher contributions receivable	—	—
Other assets	6,263,209	6,300,029
Total current assets	1,191,529,469	1,000,581,723
Noncurrent assets:		
Investments	80,756,946	56,620,582
Mortgage and other loans receivable	7,962,810,076	8,007,989,927
Less allowance for loan loss	112,032,587	85,650,574
Less net deferred loan fees	27,180,049	26,258,966
Mortgage and other loans receivable, net	7,823,597,440	7,896,080,387
Investment in rental property, net	51,527,832	45,173,660
Property, furniture, and equipment, less accumulated depreciation and amortization of \$14,424,395 and \$12,628,180 respectively	15,655,021	16,432,207
Unamortized bond issuance expenses	5,912,549	7,076,324
Other assets	236,241	359,534
Total noncurrent assets	7,977,686,029	8,021,742,694
Total assets	\$ 9,169,215,498	9,022,324,417

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(Unaudited)

**(4) Mortgage and Other Loans Receivable**

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. The following are the interest rates and typical loan terms by loan program or bond group for the major loan programs:

<u>Loan program/bond group</u>	<u>Interest rates</u>	<u>Initial loan terms</u>
General Operating Accounts	0% to 9.14%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
VHDA General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 13.85%	Thirty years
Homeownership Mortgage Bond Group	3.75% to 6.25%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at September 30, 2010:

	<u>Committed</u>	<u>Uncommitted</u>
General Operating Loan Programs	\$ 32,952,001	—
VHDA General Purpose Bond Group	7,380,221	—
Rental Housing Bond Group	81,725,680	—
Commonwealth Mortgage Bond Group	81,041,155	—
Homeownership Bond Group	—	238,444,608
Total	<u>\$ 203,099,057</u>	<u>238,444,608</u>

**(5) Cash, Cash Equivalents and Investments**

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. At September 30, 2010 and 2009, the carrying amount of the Authority's deposits was \$49,836,556 and \$61,581,646, respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were \$3,138,727 and \$7,926,845, respectively. The associated bank balance of the Authority's deposits was \$52,843,161 and \$61,201,004 at September 30, 2010 and 2009, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit, and other reconciling items.

Cash equivalents include investments with original maturities of three months or less from date of purchase. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes, and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At September 30, 2010 and 2009, total cash equivalents were \$1,304,517,229 and \$928,909,469, respectively.

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(Unaudited)

Investments are classified in the statements of net assets as follows:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Current investments	\$ 3,442,722	8,576,041
Noncurrent investments	140,433,458	93,146,160
Total investments	\$ 143,876,180	101,722,201

The Investment of Public Funds Act of the Code of Virginia permits political subdivisions of the Commonwealth to invest in open repurchase agreements and money market securities that are collateralized with securities that are approved for direct investment. Within the permitted statutory framework, the Authority's investment policy requires securities collateralizing repurchase agreements to maintain a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement, and no more than 2% of the Authority's total assets may be invested in any one entity, exclusive of overnight repurchase agreements and short term investments with a maturity not to exceed six months.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to hold all investments to maturity and to limit the length of an investment at purchase, to coincide with expected timing of its use.

**(a) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

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(Unaudited)

As of September 30, 2010, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Corporate notes	\$ —	920,348	—	—	920,348
Municipal securities	4,301,121	10,504,799	—	—	14,805,920
Asset-backed securities	—	—	—	37,104,336	37,104,336
Agency-mortgage backed securities	—	—	—	91,903,977	91,903,977
U S Government & Agency securities	149,921,750	—	—	—	149,921,750
Money market securities	787,097,402	—	—	—	787,097,402
Other interest-bearing securities	366,639,676	—	—	—	366,639,676
Total investments	<u>\$ 1,307,959,949</u>	<u>11,425,147</u>	<u>—</u>	<u>129,008,313</u>	<u>1,448,393,409</u>

As of September 30, 2009, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Corporate notes	\$ 2,501,000	919,040	—	—	3,420,040
Municipal securities	9,357,940	16,477,265	—	—	25,835,205
Asset-backed securities	—	—	—	46,063,124	46,063,124
Agency-mortgage backed securities	—	—	—	28,004,430	28,004,430
Money market securities	736,423,000	—	—	—	736,423,000
Other interest-bearing securities	190,885,882	—	—	—	190,885,882
Total investments	<u>\$ 939,167,822</u>	<u>17,396,305</u>	<u>—</u>	<u>74,067,554</u>	<u>1,030,631,681</u>

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(Unaudited)

**(b) Credit Risk**

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of September 30, 2010:

<u>Investment type</u>	<u>Amount</u>	<u>S &amp; P/ Moody's rating</u>	<u>Percentage of total investments</u>
Money Market Securities	\$ 787,097,402	P-1	54.34%
Other Interest Bearing Instruments	366,639,676	Aaa	25.31%
U S Government & Agency Securities	149,921,750	Aaa	10.35%
Agency Mortgage Backed Securities	91,903,977	Aaa	6.35%
Asset Backed Securities	10,363,564	Ca	0.72%
Asset Backed Securities	6,751,475	Caa2	0.47%
Asset Backed Securities	5,097,121	Caa3	0.35%
Municipal Securities	4,980,334	Aaa	0.34%
Asset Backed Securities	4,425,280	Ba1	0.31%
Asset Backed Securities	3,461,161	Caa1	0.24%
Municipal Securities	2,778,023	Aa1	0.19%
Municipal Securities	2,208,185	Aa2	0.15%
Municipal Securities	2,093,260	A2	0.14%
Asset Backed Securities	1,943,677	Baa2	0.13%
Asset Backed Securities	1,930,975	A2	0.13%
Asset Backed Securities	1,591,876	B3	0.11%
Municipal Securities	1,047,910	A	0.07%
Asset Backed Securities	955,758	Aaa	0.07%
Corporate Notes	920,348	A2	0.06%
Municipal Securities	858,400	NR	0.07%
Municipal Securities	616,783	Aa3	0.04%
Asset Backed Securities	497,470	Aa3	0.03%
Municipal Securities	223,025	A-	0.02%
Asset Backed Securities	85,979	Ba3	0.01%
Total investments	<u>\$ 1,448,393,409</u>		<u>100.00%</u>

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**(6) Property, Furniture, and Equipment**

Activity in the property, furniture, and equipment accounts for the three months ended September 30, 2010 was as follows:

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance September 30, 2010</b>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	30,681,045	617	—	—	30,681,662
Furniture and equipment	16,873,307	195,688	(540,294)	—	16,528,701
Motor vehicles	421,688	—	—	—	421,688
Construction in progress	990,257	97,662	—	—	1,087,919
	<u>\$ 51,902,112</u>	<u>293,967</u>	<u>(540,294)</u>	<u>—</u>	<u>51,655,785</u>

Activity in the related accumulated depreciation and amortization accounts during the three months ended September 30, 2010 was as follows:

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance September 30, 2010</b>
Building	\$ (13,615,443)	(190,715)	—	(13,806,158)
Furniture and equipment	(13,503,934)	(491,220)	540,009	(13,455,145)
Motor vehicles	(282,912)	(12,395)	—	(295,307)
	<u>\$ (27,402,289)</u>	<u>(694,330)</u>	<u>540,009</u>	<u>(27,556,610)</u>

Activity in the property, furniture, and equipment accounts for the three months ended September 30, 2009 was as follows:

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance September 30, 2009</b>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	28,734,001	—	—	1,016	28,735,017
Furniture and equipment	15,934,392	479,671	(222,342)	—	16,191,721
Motor vehicles	392,118	—	—	—	392,118
Construction in progress	1,648,560	259,279	—	(1,016)	1,906,823
	<u>\$ 49,644,886</u>	<u>738,950</u>	<u>(222,342)</u>	<u>—</u>	<u>50,161,494</u>

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Activity in the related accumulated depreciation and amortization accounts during the three months ended September 30, 2009 was as follows:

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance September 30, 2009</b>
Building	\$ (12,873,086)	(170,261)	—	(13,043,347)
Furniture and equipment	(12,078,808)	(521,601)	221,408	(12,379,001)
Motor vehicles	(238,263)	(10,916)	—	(249,179)
	<u>\$ (25,190,157)</u>	<u>(702,778)</u>	<u>221,408</u>	<u>(25,671,527)</u>

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**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2010 and September 30, 2010 and changes for the three months were as follows:

Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
(Amounts shown in thousands)				
General operating accounts:				
Revolving line of credit:				
Bank of America				
floating daily rate (rate of 1.20625 % at September 30, 2010) termination date of December 1, 2011	\$ —	40,000	—	40,000
Federal Home Loan Bank				
floating daily rate (rate of 0.17 % at September 30, 2010) no fixed maturity	327,990	38,400	—	366,390
Total general operating accounts	327,990	78,400	—	406,390
Rental housing bond group:				
2000 Series A/B, dated May 10, 2000, 5.98% effective interest rate, final due date August 1, 2024	50,910	—	28,105	22,805
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	13,655	—	13,655	—
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	34,965	—	—	34,965
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	51,895	—	—	51,895
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	50,685	—	—	50,685
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	11,090	—	—	11,090

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	\$ 16,010	—	—	16,010
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	40,855	—	1,605	39,250
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	51,640	—	—	51,640
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	36,340	—	—	36,340
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	30,860	—	—	30,860
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	20,155	—	—	20,155
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	36,650	—	—	36,650
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	55,665	—	1,750	53,915
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	66,000	—	—	66,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	46,980	—	—	46,980
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	49,330	—	—	49,330

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	\$ 67,650	—	—	67,650
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	45,625	—	—	45,625
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	15,380	—	—	15,380
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	65,520	—	—	65,520
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	46,575	—	—	46,575
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	51,955	—	1,385	50,570
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	35,600	—	—	35,600
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	36,540	—	—	36,540
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	56,490	—	—	56,490
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	39,545	—	910	38,635
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	43,395	—	760	42,635

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
(Amounts shown in thousands)				
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	\$ 85,875	—	—	85,875
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	36,755	—	—	36,755
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	38,070	—	—	38,070
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,295	—	—	8,295
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	23,000	—	—	23,000
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	44,250	—	—	44,250
2006 Series DEF, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	80,550	—	575	79,975
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	118,710	—	1,315	117,395
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	23,310	—	—	23,310
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	197,260	—	—	197,260
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	72,915	—	—	72,915

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	\$ 29,050	—	—	29,050
2009 Series CD, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	348,000	—	—	348,000
2009 Series E, dated September 24, 2009, 4.71% effective interest rate, final due date October 1, 2044.	52,185	—	—	52,185
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	49,370	—	—	49,370
2010 Series A, dated March 23, 2010, 4.80% effective interest rate, final due date April 1, 2045	21,005	—	—	21,005
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,750	—	—	22,750
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045		11,790	—	11,790
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040		33,000	—	33,000
	<u>2,419,310</u>	<u>44,790</u>	<u>50,060</u>	<u>2,414,040</u>
Unamortized premium	4,003			4,280
Total rental housing bonds	<u>2,423,313</u>			<u>2,418,320</u>
General purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	65,260	—	2,100	63,160
2002 Series X/Y/Z, dated October 31, 2002, 4.85% effective interest rate, final due date January 1, 2043	207,440	—	1,465	205,975

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	\$ 25,615	—	—	25,615
2003 Series R/S/T/U, dated October 30, 2003 4.66% effective interest rate, final due date October 1, 2038	71,195	—	—	71,195
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	29,760	—	—	29,760
	<u>399,270</u>	<u>—</u>	<u>3,565</u>	<u>395,705</u>
Unamortized premium	1,829			1,914
Total VHDA general purpose bonds	<u>401,099</u>			<u>397,619</u>
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.62% effective interest rate, final due date February 25, 2030	2,128	—	77	2,051
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	205,000	—	—	205,000
2002 Series A, dated January 14, 2002, 6.59% effective interest rate, final due date February 25, 2032	6,043	—	273	5,770
2002 Series B, dated March 20, 2002, 6.15% effective interest rate, final due date August 25, 2030	25,222	—	857	24,365
2002 Series CD, dated June 27, 2002, 6.02% effective interest rate, final due date June 25, 2032	6,560	—	455	6,105
2002 Series E/F/G, dated December 17, 2002, 5.13% effective interest rate, final due date December 25, 2032	23,058	—	861	22,197

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2003 Series C, dated October 1, 2003, 5.09% effective interest rate, final due date August 25, 2033	\$ 1,603	—	8	1,595
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029	122,620	—	3,770	118,850
2004 Series B, dated June 10, 2004, 5.61% effective interest rate, final due date June 25, 2034	6,021	—	225	5,796
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	128,920	—	3,780	125,140
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	338,910	—	11,000	327,910
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042	46,120	—	—	46,120
2005 Series C/D/E, dated November 3, 2005, 4.41% effective interest rate, final due date October 1, 2032	366,270	—	5,500	360,770
2006 Series AB, dated April 27, 2006, 5.87% effective interest rate, final due date March 25, 2036	8,620	—	407	8,213
2006 Series C, dated June 8, 2006, 6.13% effective interest rate, final due date June 25, 2034	42,889	—	2,036	40,853
2006 Series DEF, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	514,205	—	8,000	506,205
2007 Series ABCD, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	973,095	—	11,330	961,765

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Description	Balance at June 30, 2010	Issued	Retired	Balance at September 30, 2010
		(Amounts shown in thousands)		
2008 Series A, dated March 25, 2008, 6.05% effective interest rate, final due March 25, 2038	\$ 78,814	—	3,012	75,802
2008 Series B, dated April 10, 2008, 6.08% effective interest rate, final due date March 25, 2038	117,731	—	4,735	112,996
2008 Series C, dated November 18, 2008, 6.38% effective interest rate, final due date June 25, 2038	45,035	—	1,956	43,079
2008 Series DE, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	196,135	—	—	196,135
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	51,750	—	—	51,750
	<u>3,306,749</u>	<u>—</u>	<u>58,282</u>	<u>3,248,467</u>
Unamortized premium	18,604			19,550
Total commonwealth mortgage bonds group	<u>3,325,353</u>			<u>3,268,017</u>
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.151% effective interest rate, final due date November 1, 2041	321,970	—	—	321,970
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	160,990	—	—	160,990
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	107,330	—	—	107,330
	<u>590,290</u>	<u>—</u>	<u>—</u>	<u>590,290</u>
Unamortized premium (discount)	(452)			(293)
Total homeownership mortgage bonds group	<u>589,838</u>			<u>589,997</u>
Total	<u>\$ 7,067,593</u>			<u>7,080,343</u>

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Notes and bonds payable at June 30, 2009 and September 30, 2009 and changes for the three months were as follows (amounts in thousands):

	<u>June 30, 2009</u>	<u>Issued</u>	<u>Retired</u>	<u>Change in unamortized premium and compound interest payable</u>	<u>September 30, 2009</u>
General operating accounts	\$ 122,605	67,918	—	—	190,523
Rental housing bond group	2,468,110	52,185	9,620	372	2,511,047
VHDA General purpose bond group	466,289	—	3,415	143	463,017
Commonwealth mortgage bond group	3,819,985	—	140,278	1,585	3,681,292
Total	<u>\$ 6,876,989</u>	<u>120,103</u>	<u>153,313</u>	<u>2,100</u>	<u>6,845,879</u>

Current and noncurrent amounts of notes and bonds payable at September 30, 2010 and 2009 were as follows:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
	(Amount in thousands)	
Notes and bonds payable – current	\$ 704,053	473,852
Bonds payable – noncurrent	6,376,290	6,372,027
Total	<u>\$ 7,080,343</u>	<u>6,845,879</u>

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. Effective May 1, 2009, all outstanding bonds in the Multi-Family Housing Bond Group were redeemed. The call premium of \$3,098,850 less unamortized premiums and cost of issuance on the retired bonds of \$999,673 is being amortized through October 2019. There were no refundings for the three months ended September 30, 2010 and 2009.

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The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing October 1, 2010 and thereafter are as follows:

<u>Period ending September 30</u>	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
2011	\$ 704,053,350	313,540,892	1,017,594,242
2012	274,300,000	301,988,478	576,288,478
2013	271,995,000	289,919,575	561,914,575
2014	267,680,000	278,451,649	546,131,649
2015	265,055,000	266,650,285	531,705,285
2016 - 2020	1,310,690,000	1,145,671,983	2,456,361,983
2021 - 2025	1,100,860,000	832,518,831	1,933,378,831
2026 - 2030	1,055,165,857	550,023,375	1,605,189,232
2031 - 2035	812,198,750	301,740,095	1,113,938,845
2036 - 2040	580,553,747	100,985,749	681,539,496
2041 - 2045	412,340,000	9,349,684	421,689,684
Total	<u>\$ 7,054,891,704</u>	<u>4,390,840,596</u>	<u>11,445,732,300</u>

The Authority has a \$100 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The agreement will terminate on December 1, 2011. All amounts outstanding are due and payable on the termination date. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus 95 basis points per annum, 110 basis points per annum or 125 basis points per annum based upon the Authority's long-term credit ratings of AA or higher, A, or BBB or lower, respectively. All amounts outstanding at a given time are due and payable on the termination date. The Authority is in compliance with all debt covenant requirements. At September 30, 2010, \$40.0 million was outstanding and there was no amount outstanding at September 30, 2009.

The Authority has a \$150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 28, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority's long-term credit ratings and the duration outstanding. All amounts outstanding at a given time are due and payable on the termination date. At September 30, 2010 and 2009 there were no amounts outstanding.

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance is charged under a floating daily rate, which amounted to 0.17% on September 30, 2010 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At September 30, 2010, \$366.4 million was outstanding and \$190.5 million was outstanding at September 30, 2009.

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**(8) Escrows and Project Reserves**

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At September 30, 2010 and 2009, these escrows and project reserves were presented in the Authority's statements of net assets as follows:

	September 30,	
	2010	2009
Escrows – current	\$ 57,943,619	57,531,492
Project reserves – noncurrent	180,776,730	165,006,734
Total	\$ 238,720,349	222,538,226

**(9) Investment Income and Arbitrage Liabilities**

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Multi-Family Housing Bond Group, Rental Housing Bond Group, and VHDA General Purpose Bond Group is limited by certain federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were \$389,133 for the three months ended September 30, 2010 and none for three months ended September 30, 2009. Remaining liability balances were \$2,054,261 and \$2,236,658 at September 30, 2010 and 2009, respectively.

**(10) Net Assets**

Capital assets, net of related debt, represent property, furniture, and equipment, as well as an investment in rental property, less the current outstanding applicable debt. Restricted net assets represent those portions of the total net assets in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted net assets are generally required reserve funds, mortgage loans and funds held for placement into mortgage loans, investments, and funds held for scheduled debt service.

Unrestricted net assets represent those portions of the total net assets set aside to reflect current utilization and tentative plans for future utilization of such net assets. As of September 30, 2010 and 2009, such plans included funds to be available for other loans and loan commitments; for over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; self-insurance on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

(Unaudited)

**(11) Employee Benefits Plans**

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the three months ended September 30, 2010 and 2009 was \$390,308 and \$362,634, respectively.

The Authority sponsors a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the Authority's basic financial statements.

As of September 30, 2010 and 2009, included in other liabilities is an employee compensated absences accrual of \$3,498,674 and \$3,276,236, respectively (note 13).

**(12) Other Post-Employment Benefits**

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2010, there were approximately 56 participating retirees and spouses and 314 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2010 of \$964,000 was approximately 4.3% of covered payroll.

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The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 2009	\$ (29,738)	895,410	(2,082)	2,316	12.84	\$ 895,644
June 30, 2010	(106,700)	964,000	(6,625)	5,038	21.04	962,413

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2009 and 2010 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation	Net OPEB obligation (asset) balance
June 30, 2009	\$ (29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)

For the year ended June 30, 2010, the Authority's Annual OPEB cost was \$962,413; the percentage of Annual OPEB Cost Contribution was 100%; and the ending Net OPEB asset was \$39,238. For the year ended June 30, 2009, the Authority's Annual OPEB cost was \$895,644; the percentage of Annual OPEB Cost Contribution was 100%; and the ending Net OPEB asset was \$106,007.

As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was \$5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was \$22,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. As of December 31, 2009, the actuarial value of net assets held by the RHC Trust was \$10,333,985, the actuarial accrued liability was \$16,280,849, and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had \$9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

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**(13) Other Long-Term Liabilities**

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the three months ended September 30, 2010 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at September 30, 2010</u>
Project reserves	\$ 174,820,180	28,404,021	22,447,471	180,776,730
Commonwealth Priority Housing Fund liability	8,098,766	20,569	32,986	8,086,349
Other liabilities	16,839,387	2,144,209	3,555,515	15,428,081
Compensated absences payable	3,763,412	213,702	478,440	3,498,674
Total	<u>\$ 203,521,745</u>	<u>30,782,501</u>	<u>26,514,412</u>	<u>207,789,834</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the three months ended September 30, 2009 was as follows:

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at September 30, 2009</u>
Project reserves	\$ 168,015,080	10,884,380	13,892,726	165,006,734
Commonwealth Priority Housing Fund liability	8,197,185	5,365	26,671	8,175,879
Other liabilities	16,195,980	2,921,185	3,512,917	15,604,248
Compensated absences payable	3,551,919	254,195	529,879	3,276,235
Total	<u>\$ 195,960,164</u>	<u>14,065,125</u>	<u>17,962,193</u>	<u>192,063,096</u>

**(14) Contingencies and Other Matters**

Certain claims, suits, and complaints arising in the ordinary course of business have been filed and are pending against the Authority. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, are without merit or are of such kind or involve such amounts as would not have a material adverse effect on the basic financial statements of the Authority.

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(Unaudited)

The Authority participates in several Federal financial assistance programs, principal of which is the HUD Section 8 programs. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133, these programs are still subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial in relation to its financial statements.

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**(15) Subsequent Events**

In addition to scheduled issuances and redemptions, the Authority made the following borrowings and repayment subsequent to September 30, 2010 as follows:

	<u>Borrowing date</u>	<u>Amount</u>
Rental Housing Bonds, 2010 Series-B-Non-AMT	October 7, 2010	\$ 38,405,000
Federal Home Loan Bank - Atlanta, Credit Agreement	October 26, 2010	7,743,000
Homeownership Mortgage Bonds, 2010 Series B-Non-AMT	October 29, 2010	70,000,000
Homeownership Mortgage Bonds, 2009 Series-B-Non-AMT, Subseries B-2, converted to tax-exempt	October 29, 2010	105,000,000
Rental Housing Bonds, 2010 Series-F-Non-AMT	December 2, 2010	19,700,000
	<u>Repayment Date</u>	<u>Amount</u>
Federal Home Loan Bank - Atlanta, Credit Agreement	November 30, 2010	\$ 60,845,000

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Required Supplementary Information

Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date

(Unaudited)

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded as a percent of covered payroll
December 31, 2007	\$ 8,631,596	10,747,191	2,115,595	80.3%	\$ 20,479,198	10.3%
December 31, 2008	7,880,680	12,016,655	4,135,976	65.6%	21,830,868	18.9%
December 31, 2009	10,333,985	16,280,849	5,946,864	63.5%	22,527,041	26.4%

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was \$5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was \$22,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. The Authority established the RHC Trust fund in November 2006 and as of the actuarial valuation date of December 31, 2009, the actuarial value of net assets held by the RHC Trust was \$10,333,985, the actuarial accrued liability was \$16,280,849 and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had \$9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

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Combining Schedule of Net Assets

September 30, 2010

(Unaudited)

Assets	General Operating Accounts	Rental Housing Bond Group	VHDA			Home-ownership Bond Group	Total
			General Purpose Bond Group	Commonwealth Mortgage Bond Group			
<b>Current assets:</b>							
Cash and cash equivalents	\$ 637,649,950	146,629,607	38,758,243	207,791,825	323,524,160	1,354,353,785	
Investments	3,442,722	-	-	-	-	3,442,722	
Interest receivable – investments	363,597	50,557	31,940	316,227	11,199	773,520	
Mortgage loans held for sale	-	-	-	-	-	-	
Mortgage and other loans receivable	2,140,571	56,548,657	22,806,351	74,622,956	4,010,078	160,128,613	
Interest receivable – mortgage and other loans	1,065,321	16,505,933	2,832,308	17,743,269	810,228	38,957,059	
Housing Choice Voucher contributions receivable	12,837	-	-	-	-	12,837	
Other real estate owned	356,961	125,000	2,311,148	33,107,656	-	35,900,765	
Other assets	4,999,789	321,471	2,370,694	1,754,193	1,259,399	10,705,546	
<b>Total current assets</b>	<b>650,031,748</b>	<b>220,181,225</b>	<b>69,110,684</b>	<b>335,336,126</b>	<b>329,615,064</b>	<b>1,604,274,847</b>	
<b>Noncurrent assets:</b>							
Investments	73,324,385	1,265	920,348	66,187,460	-	140,433,458	
Mortgage and other loans receivable	72,798,681	2,832,864,841	489,295,451	4,361,591,614	263,852,527	8,020,403,114	
Less allowance for loan loss	3,417,124	52,869,863	11,468,503	47,297,484	396,737	115,449,711	
Less net deferred loan fees	427,998	41,839,219	3,559,443	(16,513,904)	(1,720,542)	27,592,214	
Mortgage and other loans receivable, net	68,953,559	2,738,155,759	474,267,505	4,330,808,034	265,176,332	7,877,361,189	
Investment in rental property, net	751,982	47,346,056	4,181,776	-	-	52,279,814	
Property, furniture, and equipment, less accumulated depreciation and amortization of \$27,556,610	8,701,649	6,738,989	8,658,537	-	-	24,099,175	
Unamortized bond issuance expenses	388,792	2,460,873	1,409,839	1,251,859	789,978	6,301,341	
Other assets	581,445	-	7,868	353,070	-	942,383	
<b>Total noncurrent assets</b>	<b>152,701,812</b>	<b>2,794,702,942</b>	<b>489,445,873</b>	<b>4,398,600,423</b>	<b>265,966,310</b>	<b>8,101,417,360</b>	
<b>Total assets</b>	<b>\$ 802,733,560</b>	<b>3,014,884,167</b>	<b>558,556,557</b>	<b>4,733,936,549</b>	<b>595,581,374</b>	<b>9,705,692,207</b>	

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Combining Schedule of Net Assets

September 30, 2010

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Notes and bonds payable	\$ 406,390,000	103,850,000	11,365,000	174,448,350	8,000,000	704,053,350
Accrued interest payable on notes and bonds	53,216	40,954,465	6,367,130	48,261,589	1,181,797	96,818,197
Escrows	57,943,619	-	-	-	-	57,943,619
Accounts payable and other liabilities	7,968,296	406,247	110,863	8,611,365	-	17,096,771
Total current liabilities	472,355,131	145,210,712	17,842,993	231,321,304	9,181,797	875,911,937
Noncurrent liabilities:						
Bonds payable, net	-	2,314,469,870	386,254,484	3,093,568,997	581,996,746	6,376,290,097
Project reserves	180,776,730	-	-	-	-	180,776,730
Other liabilities	(7,678,188)	30,125,916	4,151,614	413,762	-	27,013,104
Total noncurrent liabilities	173,098,542	2,344,595,786	390,406,098	3,093,982,759	581,996,746	6,584,079,931
Total liabilities	645,453,673	2,489,806,498	408,249,091	3,325,304,063	591,178,543	7,459,991,868
Net assets:						
Invested in capital assets, net of related debt	8,365,713	1,115,099	(8,788,180)	-	-	692,632
Restricted by bond indentures	268,000	523,962,570	159,095,646	1,408,632,486	4,402,831	2,096,361,533
Unrestricted	148,646,174	-	-	-	-	148,646,174
Total net assets	157,279,887	525,077,669	150,307,466	1,408,632,486	4,402,831	2,245,700,339
Total liabilities and net assets	\$ 802,733,560	3,014,884,167	558,556,557	4,733,936,549	595,581,374	9,705,692,207

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Three months ended September 30, 2010

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home- ownership Bond Group	Total
<b>Operating revenues:</b>						
Interest on mortgage and other loans	\$ 635,594	50,466,698	8,837,559	63,796,048	3,103,911	126,839,810
Pass-through grants income	45,876,753	-	-	-	-	45,876,753
Housing Choice Voucher program income	18,176,202	-	-	-	-	18,176,202
Investment in rental property income	-	2,463,216	664,816	-	-	3,128,032
Gains and recoveries on sale of other real estate owned	-	-	2,269	375,586	-	377,855
Other	2,050,855	294,682	282,570	381,735	-	3,009,842
<b>Total operating revenues</b>	<b>66,739,404</b>	<b>53,224,596</b>	<b>9,787,214</b>	<b>64,553,369</b>	<b>3,103,911</b>	<b>197,408,494</b>
<b>Operating expenses:</b>						
Interest on notes and bonds	238,744	34,000,486	4,963,033	40,131,734	2,838,859	82,172,856
Salaries and related employee benefits	7,663,944	-	-	-	-	7,663,944
General operating expenses	3,600,378	54,306	115,962	-	-	3,770,646
Note and bond expenses	(42,655)	-	-	-	-	(42,655)
Amortization of bond issuance expenses	6,500	122,340	11,583	21,095	6,337	167,855
Pass-through grants expenses	45,876,753	-	-	-	-	45,876,753
Housing Choice Voucher program expenses	17,257,237	-	-	-	-	17,257,237
External mortgage servicing expenses	35,111	-	2,536	284,676	-	322,323
Investment in rental property expenses	-	2,653,515	1,276,145	-	-	3,929,660
Losses and expenses on other real estate owned	42,556	482,941	312,978	5,334,926	-	6,173,401
Provision for loan losses	142,800	7,682,436	(575,382)	1,619,576	90,833	8,960,263
<b>Total operating expenses</b>	<b>74,821,368</b>	<b>44,996,024</b>	<b>6,106,855</b>	<b>47,392,007</b>	<b>2,936,029</b>	<b>176,252,283</b>
<b>Operating income (expense)</b>	<b>(8,081,964)</b>	<b>8,228,572</b>	<b>3,680,359</b>	<b>17,161,362</b>	<b>167,882</b>	<b>21,156,211</b>
<b>Nonoperating revenues (losses):</b>						
Investment income (loss)	(3,603,460)	4,810,904	39,893	1,277,115	184,297	2,708,749
Other, net	22,324	-	-	-	-	22,324
<b>Total nonoperating revenues (losses)</b>	<b>(3,581,136)</b>	<b>4,810,904</b>	<b>39,893</b>	<b>1,277,115</b>	<b>184,297</b>	<b>2,731,073</b>
<b>Income (loss) before transfers</b>	<b>(11,663,100)</b>	<b>13,039,476</b>	<b>3,720,252</b>	<b>18,438,477</b>	<b>352,179</b>	<b>23,887,284</b>
<b>Transfers between funds</b>	<b>1,967,487</b>	<b>38,199,156</b>	<b>1,569,615</b>	<b>(43,303,016)</b>	<b>1,566,758</b>	<b>-</b>
<b>Change in net assets</b>	<b>(9,695,613)</b>	<b>51,238,632</b>	<b>5,289,867</b>	<b>(24,864,539)</b>	<b>1,918,937</b>	<b>23,887,284</b>
<b>Total net assets, beginning of year</b>	<b>166,975,500</b>	<b>473,839,037</b>	<b>145,017,599</b>	<b>1,433,497,025</b>	<b>2,483,894</b>	<b>2,221,813,055</b>
<b>Total net assets, end of year</b>	<b>\$ 157,279,887</b>	<b>\$ 525,077,669</b>	<b>\$ 150,307,466</b>	<b>\$ 1,408,632,486</b>	<b>\$ 4,402,831</b>	<b>\$ 2,245,700,339</b>

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Combining Schedule of Net Assets

September 30, 2009

(Unaudited)

Assets	General Operating Accounts	VHDA				Total
		Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	
Current assets:						
Cash and cash equivalents	\$ 417,637,706	218,643,106	45,820,889	308,389,414	-	990,491,115
Investments	8,576,041	-	-	-	-	8,576,041
Interest receivable – investments	524,868	79,840	27,756	72,959	-	705,423
Mortgage loans held for sale	8,515,415	-	-	12,373	-	8,527,788
Mortgage and other loans receivable	2,057,430	54,246,769	23,631,072	75,714,893	-	155,650,164
Interest receivable – mortgage and other loans	1,190,307	15,887,183	2,885,714	18,953,280	-	38,916,484
Housing Choice Voucher contributions receivable	51,891	-	-	-	-	51,891
Other real estate owned	1,094,134	312,000	1,764,725	16,945,010	-	20,115,869
Other assets	5,349,024	772,312	2,596,353	1,024,085	-	9,741,774
Total current assets	444,996,816	289,941,210	76,726,509	421,112,014	-	1,232,776,549
Noncurrent assets:						
Investments	66,199,704	26,027,417	919,040	-	-	93,146,161
Mortgage and other loans receivable	64,732,074	2,729,854,023	527,514,790	4,745,734,251	-	8,067,835,138
Less allowance for loan loss	2,733,212	34,864,644	8,862,153	41,923,777	-	88,383,786
Less net deferred loan fees	466,062	39,311,752	3,420,511	(16,473,297)	-	26,725,028
Mortgage and other loans receivable, net	61,532,800	2,655,677,627	515,232,126	4,720,283,771	-	7,952,726,324
Investment in rental property, net	766,369	40,298,756	4,874,904	-	-	45,940,029
Property, furniture, and equipment, net	8,411,353	6,956,214	9,122,400	-	-	24,489,967
depreciation and amortization of \$25,671,527	386,913	3,991,263	1,697,619	1,387,442	-	7,463,237
Unamortized bond issuance expenses	557,891	-	9,527	400,060	-	967,478
Other assets	137,855,030	2,732,951,277	531,855,616	4,722,071,273	-	8,124,733,196
Total noncurrent assets	\$ 582,851,846	3,022,892,487	608,582,125	5,143,183,287	-	9,357,509,745

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Combining Schedule of Net Assets

September 30, 2009

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Notes and bonds payable	\$ 190,523,000	90,185,000	11,020,000	182,123,588	-	473,851,588
Accrued interest payable on notes and bonds	18,998	43,330,293	7,343,554	53,752,966	-	104,445,811
Escrows	57,531,492	-	-	-	-	57,531,492
Accounts payable and other liabilities	3,866,038	860,293	113,884	12,464,528	-	17,304,743
Total current liabilities	251,939,528	134,375,586	18,477,438	248,341,082	-	653,133,634
Noncurrent liabilities:						
Bonds payable, net	-	2,420,862,403	451,997,138	3,499,167,917	-	6,372,027,458
Project reserves	165,006,734	-	-	-	-	165,006,734
Other liabilities	(4,661,946)	26,632,917	3,334,951	1,750,440	-	27,056,362
Total noncurrent liabilities	160,344,788	2,447,495,320	455,332,089	3,500,918,357	-	6,564,090,554
Total liabilities	412,284,316	2,581,870,906	473,809,527	3,749,259,439	-	7,217,224,188
Net assets:						
Invested in capital assets, net of related debt	7,369,883	4,842,845	(8,493,870)	-	-	3,718,858
Restricted by bond indentures	(71,473)	436,178,736	143,266,468	1,393,923,848	-	1,973,297,579
Unrestricted	163,269,120	-	-	-	-	163,269,120
Total net assets	170,567,530	441,021,581	134,772,598	1,393,923,848	-	2,140,285,557
Total liabilities and net assets	\$ 582,851,846	3,022,892,487	608,582,125	5,143,183,287	-	9,357,509,745

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Three months ended September 30, 2009  
(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
<b>Operating revenues:</b>						
Interest on mortgage and other loans	\$ 1,103,350	48,795,149	9,568,792	69,079,762	-	128,547,053
Pass-through grants income	17,826,248	-	-	-	-	17,826,248
Housing Choice Voucher program income	16,343,726	-	-	-	-	16,343,726
Investment in rental property income	-	2,792,566	640,226	-	-	3,432,792
Gains and recoveries on sale of other real estate owned	(1)	-	1,928	80,010	-	81,937
Other	2,154,124	144,797	351,449	20,125	-	2,670,495
<b>Total operating revenues</b>	<b>37,427,447</b>	<b>51,732,512</b>	<b>10,562,395</b>	<b>69,179,897</b>	<b>-</b>	<b>168,902,251</b>
<b>Operating expenses:</b>						
Interest on notes and bonds	55,600	35,470,683	5,742,392	45,830,612	-	87,099,287
Salaries and related employee benefits	7,205,483	-	-	-	-	7,205,483
General operating expenses	3,297,120	54,306	115,954	-	-	3,467,380
Note and bond expenses	52,985	-	-	-	-	52,985
Amortization of bond issuance expenses	15,125	30,865	13,499	46,854	-	106,343
Pass-through grants expenses	17,826,248	-	-	-	-	17,826,248
Housing Choice Voucher program expenses	17,733,165	-	-	-	-	17,733,165
External mortgage servicing expenses	3,256	-	2,946	335,768	-	341,970
Investment in rental property expenses	5,114	2,443,921	499,836	-	-	2,948,871
Losses and expenses on other real estate owned	(63)	-	187,709	3,736,933	-	3,924,579
Provision for loan losses	(1,133,784)	5,531,764	1,793,672	1,050,238	-	7,241,890
<b>Total operating expenses</b>	<b>45,060,249</b>	<b>43,531,539</b>	<b>8,356,008</b>	<b>51,000,405</b>	<b>-</b>	<b>147,948,201</b>
<b>Operating income (expense)</b>	<b>(7,632,802)</b>	<b>8,200,973</b>	<b>2,206,387</b>	<b>18,179,492</b>	<b>-</b>	<b>20,954,050</b>
<b>Nonoperating revenues (losses):</b>						
Investment income (loss)	(2,565,865)	1,201,471	56,865	1,214,849	-	(92,680)
Other, net	10,205	-	-	-	-	10,205
<b>Total nonoperating revenues (losses)</b>	<b>(2,555,660)</b>	<b>1,201,471</b>	<b>56,865</b>	<b>1,214,849</b>	<b>-</b>	<b>(82,475)</b>
<b>Income (loss) before transfers</b>	<b>(10,188,462)</b>	<b>9,402,444</b>	<b>2,263,252</b>	<b>19,394,341</b>	<b>-</b>	<b>20,871,575</b>
<b>Transfers between funds</b>	<b>26,771,788</b>	<b>(1,109,609)</b>	<b>2,006,849</b>	<b>(27,669,028)</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>16,583,326</b>	<b>8,292,835</b>	<b>4,270,101</b>	<b>(8,274,687)</b>	<b>-</b>	<b>20,871,575</b>
<b>Total net assets, beginning of year</b>	<b>153,984,204</b>	<b>432,728,746</b>	<b>130,502,497</b>	<b>1,402,198,535</b>	<b>-</b>	<b>2,119,413,982</b>
<b>Total net assets, end of quarter</b>	<b>\$ 170,567,530</b>	<b>441,021,581</b>	<b>134,772,598</b>	<b>1,393,923,848</b>	<b>-</b>	<b>2,140,285,557</b>

See accompanying notes to financial statements.