



Suite 1900
1021 East Cary Street
Richmond, VA 23219

Independent Auditors' Report

Commissioners
Virginia Housing Development Authority:

We have audited the accompanying balance sheet of the Virginia Housing Development Authority, a component unit of the Commonwealth of Virginia, as of June 30, 2000 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2000 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2000 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

September 15, 2000



VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Balance Sheet
June 30, 2000

Assets	General Fund	Multi-Family Lending Programs		Single Family Lending Programs	Memorandum Only Totals	
		Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	Totals	
					2000	1999
Cash (note 4)	\$ 3,095,757	656,741	14,428	691,971	4,458,897	6,857,793
Cash equivalents (note 4)	82,598,171	103,704,000	5,623,743	318,144,512	510,070,426	835,639,374
Total cash and cash equivalents	85,693,928	104,360,741	5,638,171	318,836,483	514,529,323	842,497,167
Investments (note 4)	318,908,282	217,676,147	23,022,889	666,985,351	1,226,592,669	1,460,821,778
Interest receivable - investments	2,195,782	1,431,586	290,357	2,412,534	6,330,259	5,753,958
Mortgage and other loans receivable (note 3)	154,454,614	1,452,037,318	127,865,533	3,467,701,927	5,202,059,392	4,918,400,370
Less net deferred loan fees	766,916	21,371,786	352,742	13,840,589	36,332,033	34,014,652
Mortgage & other loans receivable - net	153,687,698	1,430,665,532	127,512,791	3,453,861,338	5,165,727,359	4,884,385,718
Interest receivable - mortgage and other loans	1,242,525	9,545,392	786,959	14,949,078	26,523,954	32,225,948
Investment in rental property - net	3,220,618	-	-	-	3,220,618	3,403,247
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,286,496	17,425,307	-	-	-	17,425,307	18,510,535
Unamortized bond issuance expenses	145,598	3,555,606	120,102	2,321,887	6,143,193	6,027,875
Other real estate owned	221,566	15,400,000	-	7,036,799	22,658,365	29,433,376
Other assets	4,698,329	-	-	4,788,401	9,486,730	14,799,941
Total assets	\$ 587,439,633	1,782,635,004	157,371,269	4,471,191,871	6,998,637,777	7,297,859,543
Liabilities and Fund Balances						
Notes and bonds payable - net (note 5)	\$ 55,915,690	1,530,278,287	152,888,317	3,702,204,430	5,441,286,724	5,868,333,870
Accrued interest payable on notes and bonds	941,027	17,044,380	1,482,194	82,838,522	102,306,123	105,495,116
Allowance for loan losses	14,584,961	-	-	-	14,584,961	14,584,961
Section 8 contributions payable	12,839,833	-	-	-	12,839,833	7,668,635
Escrows and project reserves (note 6)	147,572,428	-	-	-	147,572,428	138,797,105
Virginia Housing Partnership Revolving Fund liability	82,189,814	-	-	-	82,189,814	80,580,389
Accounts payable and other liabilities (note 4)	52,158,091	7,833,190	-	27,172,211	87,163,492	63,599,726
Total liabilities	366,201,844	1,555,155,857	154,370,511	3,812,215,163	5,887,943,375	6,279,059,802
Restricted fund balances (note 9)	-	227,479,147	3,000,758	658,976,708	889,456,613	801,835,089
Designated fund balances (note 9)	221,237,789	-	-	-	221,237,789	216,964,652
Total fund balances	221,237,789	227,479,147	3,000,758	658,976,708	1,110,694,402	1,018,799,741
Commitments, contingencies and subsequent events (notes 3, 8, 9, 10 and 12)						
Total liabilities and fund balances	\$ 587,439,633	1,782,635,004	157,371,269	4,471,191,871	6,998,637,777	7,297,859,543

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Balances
Year ended June 30, 2000

	General Fund	Multi-Family Lending Programs		Single Family Lending Programs	Memorandum Only Totals	
		Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	2000	1999
Revenues						
Interest on mortgage and other loans	\$ 3,961,156	115,124,624	9,980,829	249,028,480	378,095,089	360,555,623
Investment income (note 7)	20,502,127	15,286,679	1,266,124	52,756,682	89,811,612	84,772,942
Pass-through grants received	133,802,624	-	-	-	133,802,624	125,356,049
Section 8 fee income earned	2,671,874	-	-	-	2,671,874	2,540,903
Gains and recoveries on sale of other real estate owned	4,002	-	-	1,968,085	1,972,087	1,750,919
Other	3,773,097	1,780,240	-	95	5,553,432	5,967,719
Total revenues	164,714,880	132,191,543	11,246,953	303,753,342	611,906,718	580,944,155
Expenses						
Interest on notes and bonds	11,564,841	95,014,297	9,769,309	220,647,050	336,995,497	326,358,739
Salaries and related employee benefits	20,368,048	-	-	-	20,368,048	17,227,638
General operating expenses	14,417,309	-	-	-	14,417,309	13,014,707
Amortization of bond issuance expenses	7,663	344,780	5,897	404,330	762,670	856,190
Pass-through grants disbursed	133,802,624	-	-	-	133,802,624	125,356,049
Section 8 program expenses	2,893,653	-	-	-	2,893,653	2,364,223
Mortgage servicing expenses	81,466	-	16,257	8,211,046	8,308,769	9,142,584
Losses and expenses on sale of other real estate owned	207,381	-	-	2,256,106	2,463,487	3,075,691
Total expenses	183,342,985	95,359,077	9,791,463	231,518,532	520,012,057	497,395,821
Excess (deficiency) of revenues over expenses	(18,628,105)	36,832,466	1,455,490	72,234,810	91,894,661	83,548,334
Fund balances at beginning of year	216,964,652	219,005,825	5,144,185	577,685,079	1,018,799,741	935,251,407
Transfers between funds	22,901,242	(28,359,144)	(3,598,917)	9,056,819	-	-
Fund balances at end of year	\$ 221,237,789	227,479,147	3,000,758	658,976,708	1,110,694,402	1,018,799,741

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows
Year ended June 30, 2000

	Multi-Family Lending Programs			Single Family Lending Programs	Memorandum Only Totals	
	General Fund	Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	2000	1999
Cash flows from operating activities:						
Cash payments for mortgage and other loans	\$ (38,766,540)	(197,173,618)	-	(457,888,473)	(693,828,631)	(873,650,135)
Principal repayments on mortgage and other loans	43,637,669	24,784,440	5,580,835	303,479,105	377,482,049	561,988,642
Interest received on mortgage and other loans	4,018,554	114,651,221	9,978,712	259,794,473	388,442,960	355,882,747
Section 8 contributions and pass-through grants received	152,885,352	-	-	-	152,885,352	137,923,182
Section 8 contributions and pass-through grants disbursed	(143,024,000)	-	-	-	(143,024,000)	(129,910,135)
Cash received for Virginia Housing Partnership Fund Program	2,346,272	-	-	-	2,346,272	2,262,884
Grants made from Virginia Housing Partnership Fund Program	(204,972)	-	-	-	(204,972)	(932,765)
Escrow payments received	83,994,250	-	-	-	83,994,250	79,172,082
Escrow payments disbursed	(74,090,104)	-	-	-	(74,090,104)	(62,224,704)
Other operating revenues	4,913,124	1,840,834	-	95	6,754,053	8,781,016
Cash received from loan origination fees	4,252,960	-	-	5,422,169	9,675,129	9,355,550
Cash payments for salaries and related benefits	(19,992,847)	-	-	-	(19,992,847)	(18,194,162)
Cash payments for general operating expenses	(19,345,969)	2,915	-	-	(19,343,054)	(19,368,026)
Cash payments for mortgage servicing expenses	(80,519)	-	(16,489)	(8,190,900)	(8,287,908)	(8,848,317)
Proceeds from sale of other real estate owned	269,528	-	-	34,511,940	34,781,468	41,718,568
Investment in rental property	-	-	-	-	-	(61,134)
Net cash provided by (used in) operating activities	812,758	(55,894,208)	15,543,058	137,128,409	97,590,017	83,895,293
Cash flows from noncapital financing activities:						
Proceeds from sale of notes and bonds	235,445,000	194,475,000	-	237,745,000	667,665,000	1,526,640,000
Principal payments on notes and bonds	(567,755,000)	(64,592,786)	(4,050,000)	(460,352,357)	(1,096,750,143)	(941,986,436)
Interest payments on notes and bonds	(10,496,017)	(87,228,923)	(9,777,798)	(224,997,972)	(332,500,710)	(320,844,258)
Cash payments for bond issuance expenses	(3,778,216)	-	-	-	(3,778,216)	(6,924,793)
Redemption premium paid on bond calls	-	(219,698)	-	-	(219,698)	(2,705,165)
Transfers (to) from other funds	29,877,417	(26,278,500)	(3,598,917)	-	-	-
Net cash provided by (used in) noncapital financing activities	(316,706,816)	16,155,093	(17,426,715)	(447,605,329)	(765,583,767)	254,179,348
Cash flows from capital and related financing activities:						
Principal payments on building bonds	(750,000)	-	-	-	(750,000)	(700,000)
Interest payments on building bonds	(1,580,230)	-	-	-	(1,580,230)	(1,612,880)
Purchases of furniture and fixtures	(1,560,471)	-	-	-	(1,560,471)	(2,176,394)
Net cash used in capital and related financing activities	(3,890,701)	-	-	-	(3,890,701)	(4,489,274)

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows, Continued

	General Fund	Multi-Family Lending Programs		Single Family Lending Programs	Memorandum Only Totals	
		Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	Totals	
					2000	1999
Cash flows from investing activities:						
Purchases of investments	\$ (860,358,429)	(246,383,166)	(8,453,501)	(306,230,974)	(1,421,426,070)	(1,705,090,236)
Proceeds from sales or maturities of investments	1,044,814,900	246,772,762	8,524,343	366,321,213	1,666,433,218	1,352,334,054
Interest received on investments	22,738,590	21,050,253	2,046,915	53,073,701	98,909,459	97,478,046
Net cash provided by (used in) investing activities	207,195,061	21,439,849	2,117,757	113,163,940	343,916,607	(255,278,136)
Net increase (decrease) in cash and cash equivalents	(112,589,698)	(18,299,266)	234,100	(197,312,980)	(327,967,844)	78,307,231
Cash and cash equivalents at beginning of year	198,283,626	122,660,007	5,404,071	516,149,463	842,497,167	764,189,936
Cash and cash equivalents at end of year	\$ 85,693,928	104,360,741	5,638,171	318,836,483	514,529,323	842,497,167
Reconciliation of excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:						
Excess (deficiency) of revenues over expenses	\$ (18,628,105)	36,832,466	1,455,490	72,234,810	91,894,661	83,548,334
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:						
(Gain) loss on sale of furniture and fixtures	-	-	-	-	-	3,503
Depreciation of property, furniture and equipment	2,828,327	-	-	-	2,828,327	2,913,560
Other depreciation and amortization	8,610	344,780	(61,959)	626,803	918,234	870,869
Investment income	(20,502,127)	(15,286,679)	(1,266,124)	(52,756,682)	(89,811,612)	(84,772,942)
Interest on notes and bonds	11,564,841	95,014,297	9,769,309	220,647,050	336,995,497	326,358,739
Investment in rental property	-	-	-	-	-	(61,134)
Changes in assets and liabilities:						
(Increase) decrease in mortgage and other loans receivable	5,701,112	(170,584,809)	5,572,013	(124,354,543)	(283,666,227)	(268,369,674)
(Increase) decrease in interest receivable-mortgage and other loans	190,549	(784,863)	52,501	6,187,434	5,645,621	2,654,814
Decrease in other real estate owned	62,482	-	-	6,429,371	6,491,853	1,461,071
(Increase) decrease in other assets	1,864,694	-	21,828	7,402,765	9,289,287	(7,796,273)
Increase (decrease) in accounts payable and other liabilities	(3,119,419)	(1,925,536)	-	(4,311,148)	(9,356,103)	(5,429,467)

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows, Continued

	General Fund	Multi-Family Lending Programs		Single Family Lending Programs	Memorandum Only Totals	
		Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	2000	1999
Reconciliation of excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities, Cont.:						
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities, Cont.:						
Change in assets and liabilities, Cont.:						
Increase (decrease) in Section 8 contributions payable	\$ 5,171,197	-	-	-	5,171,197	7,001,203
Increase in escrows and project reserves	9,904,146	-	-	-	9,904,146	16,947,378
Increase in Virginia Housing Partnership Fund liability	1,608,904	-	-	-	1,608,904	1,330,119
Increase in net deferred loan fees	4,157,547	496,136	-	5,022,549	9,676,232	7,235,193
Net cash provided by (used in) operating activities	\$ 812,758	(55,894,208)	15,543,058	137,128,409	97,590,017	83,895,293
Supplemental disclosure of non-cash investing activity-increase in other real estate owned as a result of loan foreclosures	\$ 233,120	-	-	26,717,125	26,950,245	43,895,365

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2000

(1) Organization and Summary of Significant Accounting Policies

Organization

The Virginia Housing Development Authority was created under the Virginia Housing Development Authority Act (the "Act") enacted by the 1972 Session of the General Assembly. The Act, as amended, 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, 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 of Virginia. The accounts of the Authority, along with other similar types of funds, are combined to form the Enterprise Funds of the Commonwealth.

Fund Accounting

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. Each fund utilizes the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Investments

Investments are reported at fair market value on the balance sheet, with changes in fair value being recognized in the statement of revenues, expenses and changes in fund balances. Fair value is determined by reference to published market prices and quotations from national security exchanges and securities pricing services.

Investment in Rental Property

Investment in rental property represents a multi-family apartment complex, including property, furniture and equipment. These assets are recorded at cost in the General Fund and are depreciated using the straight-line method over the estimated useful lives, which are thirty years for the building and five years for furniture and equipment. The investment is carried net of accumulated depreciation of \$1,834,153.

Mortgage and Other Loans Receivable

Mortgage and other loans receivable are stated at their unpaid principal balance, net of deferred loan fees and costs. 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.

Allowance for Loan Losses

The Authority provides for losses when a specific need for an allowance is identified in the various funds or groups of funds. The allowance is recorded in the General Fund but is available to cover possible losses in all funds. 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, economic conditions, the value and adequacy of collateral, and the current level of the allowance.

Property, Furniture and Equipment

Property, furniture and equipment are capitalized at cost in the General Fund and depreciation is provided on the straight-line basis over the estimated useful lives, which are thirty years for the building and from three to ten years for furniture and equipment.

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.

Other Real Estate Owned

Other real estate owned represents real estate acquired 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 statement of revenues, expenses and changes in fund balances.

Notes and Bonds Payable

Notes and bonds payable are stated at their unpaid balance less any remaining premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method.

Retirement Plans

The Authority has a defined contribution employees' retirement savings plan covering substantially all employees. The retirement expense is fully funded as incurred, thus resulting in no unfunded future retirement liabilities. To the extent that terminating employees are less than one hundred percent (100%) vested in the Authority's contributions, the unvested portion is forfeited and redistributed to remaining participating employees.

The Authority also provides postretirement health care benefits to all employees, with at least 10 years of service, and who retire from the Authority on or after attaining age 55 or become permanently disabled. The expense is fully funded as incurred. The decision to continue benefits offered under the postretirement health care plan is determined annually by the Board of Commissioners.

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

Pass-through Grants

As required by Statement No. 24 of the Government Accounting Standards Board, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, governmental entities that receive grants or other financial assistance that are transferred to a secondary recipient must report such pass-through grants as revenues and expenses. The Authority received and disbursed pass-through grants totaling \$133,802,624 during the year ended June 30, 2000.

Section 8 Contributions

As the Commonwealth of Virginia’s administrator for the Department of Housing and Urban Development’s Section 8 “Lower Income Housing Assistance” program, the Authority requisitions Section 8 funds, makes disbursements to eligible landlords and tenants, and recognizes fee income. Section 8 revenues and expenses are recorded in the General Fund. Upon receipt of Section 8 funds, a liability is recorded for the Authority’s obligation to disburse funds to Section 8 participants.

Virginia Housing Partnership Revolving Fund

The Virginia Housing Partnership Revolving 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 Authority acts as administrator for the Fund under guidelines developed by the Virginia Department of Housing and Community Development. Balances in the Fund are presented as assets consisting of cash, investments, mortgage loans and other assets with a corresponding liability in the General Fund.

In October, 1990, the Authority extended a revolving line of credit up to \$38,000,000 to the Virginia Housing Partnership Revolving Fund for a period not to exceed fifteen years at a rate of not less than 2.95 percent. The Fund has agreed to pledge its assets to secure this line of credit and repayment is to be made over the 15 year term. As of June 30, 2000, there are no amounts outstanding under the line of credit.

Statement of Cash Flows

For purposes of the statement of cash flows, cash equivalents consist of investments with original maturities of three months or less.

Memorandum Only Totals

The “memorandum only totals” columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by the related debt resolutions, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate funds or groups of funds. The totals for 1999 are for comparative purposes only.

(2) Description of Funds and Fund Groups

General Fund

The General Fund is used to record the receipt of income not directly pledged to the repayment of specific notes or bonds, and the payment of expenses related to the Authority’s administrative functions.

Multi-Family Housing and Rental Housing Bond Group

The proceeds of Multi-Family Housing and Rental Housing Bonds are used to finance construction and permanent loans on multi-family projects.

Other Multi-Family Lending Programs

Other Multi-Family Lending Programs include the Multi-Family Mortgage Purchase Bond Group and the Multi-Family Mortgage Bond Group. Proceeds of the Multi-Family Mortgage Purchase Bonds recorded in this fund were used to purchase long-term Federal Housing Administration (FHA)-insured multi-family mortgage loans on rental housing. The proceeds of Multi-Family Mortgage Bonds are used to finance construction and permanent loans on multi-family projects.

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.

(3) Mortgage and Other Loans Receivable

Substantially all mortgage and other loans receivable are secured by first liens on real property in the Commonwealth of Virginia. 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 Rate</u>	<u>Initial Loan Terms</u>
Multi-Family Housing Bond Group	5.31% to 13.92%	Thirty to forty years
Rental Housing Bond Group	6.39% to 9.19%	Thirty to forty years
Multi-Family Mortgage Purchase Bond Group	2.00% to 7.50%	Forty years
Multi-Family Mortgage Bond Group	6.97% to 9.14%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to 13.85%	Thirty years
Energy Conservation and Rehabilitation Loan Program	6.75% to 8.00%	Up to fifteen years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2000:

	<u>June 30, 2000</u>
Multi-Family Housing and Rental Housing Bond Group	\$ 231,205,000
Commonwealth Mortgage Bond Group	<u>131,665,000</u>
	\$ <u>362,870,000</u>

The Authority conducts various mortgage loan programs financed or supported by the General Fund through direct loans, deposits into funds and accounts under the Authority's bond resolutions for financing mortgage loans or establishment of reserves for below market rate loans. For such programs, the Authority has made available, on a revolving basis, the amount of \$172.0 million as of June 30, 2000 designated as the Virginia Housing Fund for the implementation of additional lending programs, principally for the elderly, disabled, homeless and other low income persons. Amounts disbursed for loans under the Virginia Housing Fund may not be available for the payment of debt service on any obligations of the Authority. Such loans from the General Fund are expected generally to have a yield substantially less than that of U.S. Government or agency securities of similar maturity and to have terms of approximately thirty years. Pursuant to a financial study by a consultant, the Authority intends to make available to the Virginia Housing Fund or similar programs up to an additional \$20 million on approximately October 1, 2000. The Authority intends to engage a consultant for a new resource allocation study which is expected to include recommendations for amounts to be made available to the Virginia Housing Fund or similar programs for the fiscal years ending on June 30, 2002 through June 30, 2006.

(4) 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 June 30, 2000, the carrying amount of the Authority's deposits as \$4,458,897 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$16,164,291. The associated bank balance of the Authority's deposits was \$8,097,491. 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. Investments consist of repurchase agreements, 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. Certain bond indentures include reserve fund requirements, and investments in these reserve funds are generally not available for mortgage loans.

The Authority's cash equivalents and investments are categorized to give an indication of the level of credit risk assumed by the Authority at year-end. Category 1 includes bank balances that are insured or securities held by the Authority or its agent in the Authority's name. Category 2 includes bank balances collateralized with securities held by the pledging financial

institution's trust department or agent in the Authority's name. Certain balances have not been categorized because securities are not used as evidence of the investment. The credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2000 were as follows:

Cash Equivalents

	June 30, 2000		
	<u>Category 1</u>	<u>Category 2</u>	<u>Fair value</u>
Repurchase agreements	\$ 438,440,117	21,727,274	460,167,391
Interest bearing checking	2,391,006	-	2,391,006
Municipal tax-exempt securities	1,020,000	-	1,020,000
U.S. Government and agency securities	-	-	-
Totals	<u>\$ 441,851,123</u>	<u>21,727,274</u>	<u>463,578,397</u>

Add amounts not categorized because securities are not used as evidence of the investments:

NationsBank treasury portfolio	662,744
Federal Home Loan Bank Note	2,035,262
Centric Capital C/P	23,391,478
Superior Funding C/P	<u>20,402,545</u>
Total cash equivalents	<u>\$ 510,070,426</u>

The credit risk categorization and fair value of the Authority's investments at June 30, 2000 (all of which were classified Category 1) were as follows:

Investments

	June 30, 2000	
		<u>Fair value</u>
U.S. Government and agency securities	\$ 119,078,825	
Repurchase agreements		80,000,000
Corporate notes		17,202,520
Municipal tax-exempt securities		29,091,046
Asset backed securities		278,501,734
Agency mortgage backed securities		<u>183,837,488</u>
Totals		<u>707,711,613</u>

Add amounts not categorized because securities are not used as evidence of the investments:

New York Life Investment Agreement	40,546,056
Lehman Brothers Special Financing Agreement	475,000,000
Federal Home Loan Bank Note	<u>3,335,000</u>
Total investments	<u>\$ 1,226,592,669</u>

The Virginia Security for Public Deposits Act requires that securities collateralizing repurchase agreements must have a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement.

(5) Notes and Bonds Payable

Notes and bonds payable at June 30, 2000 were as follows:

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2000</u>
<u>General Fund</u>				
<u>Notes</u>				
Federal Home Loan Bank	No fixed maturity	floating rate (weighted average rate of 6.88% at June 30, 2000)	\$ -	28,340
 <u>VHDA General Purpose Bonds</u>				
1993 Bonds dated June 16, 1993	July 1, 2019	5.79%, adjustable	29,070	27,620
Unamortized discount				<u>(44)</u>
Total General Fund				<u>27,576</u> <u>55,916</u>
 <u>Multi-Family Housing and Rental Housing Bond Group</u>				
<u>Multi-Family Housing Bonds</u>				
1982 Series A, dated June 30, 1982	November 1, 2017	10.88%	256,970	73,495
1985 Series B, dated December 5, 1985	May 1, 2008	6.87%	52,215	2,840
1989 Series C, dated April 1, 1989 and April 27, 1989	May 1, 2021	7.84%	3,604	1,322
1989 Series D, dated September 15, 1989 and October 11, 1989	November 1, 2014	7.37%	14,202	7,347
1990 Series A, dated December 1, 1989	May 1, 2010	7.45%	4,040	2,690
1990 Series B, dated April 1, 1990 and April 19, 1990	May 1, 2021	7.51%	4,968	2,923
1991 Series A, dated January 15, 1991	May 1, 2011	9.60%	7,735	6,060
1991 Series B/C, dated April 15, 1991	May 1, 2014	6.90%	7,730	4,575
1991 Series D, dated April 15, 1991	November 1, 2011	9.24%	4,500	3,520
1991 Series E, dated July 25, 1991	November 1, 2011	9.25%	3,640	2,995
1991 Series F, dated August 15, 1991	May 1, 2013	7.05%	44,300	28,375
1992 Series A, dated January 15, 1992	May 1, 2013	7.98%	4,160	3,305
1992 Series B, dated March 1, 1992	May 1, 2008	7.86%	3,360	2,165

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2000</u>
(Amounts shown in thousands)				
1992 Series C/D, dated March 15, 1992	May 1, 2018	6.88%	\$ 80,155	66,745
1992 Series E, dated June 9, 1992	May 1, 2015	6.68%	5,200	4,320
1992 Series F/G, dated October 1, 1992 and October 14, 1992	November 1, 2022	6.26%	17,695	15,450
1992 Series H, dated October 14, 1992	May 1, 2018	7.86%	33,000	16,460
1993 Series A, dated February 1, 1993	November 1, 2015	7.79%	19,380	14,335
1993 Series B, dated April 1, 1993	May 1, 2016	6.42%	23,520	9,045
1993 Series C/D/E/F, dated April 1, 1993, May 1, 1993 and June 1, 1993	November 1, 2017	5.64%	159,240	134,340
1993 Series G, dated August 1, 1993	November 1, 2015	7.00%	6,710	5,780
1993 Series H, dated November 1, 1993	May 1, 2013	5.09%	9,100	7,265
1994 Series A, dated March 1, 1994	November 1, 2015	6.94%	18,720	16,005
1994 Series B/C, dated April 1, 1994	May 1, 2015	5.99%	36,410	27,010
1994 Series D, dated April 1, 1994	May 1, 2015	7.78%	35,200	26,150
1994 Series F/G, dated June 1, 1994	May 1, 2015	6.34%	14,630	12,220
1994 Series H, dated September 1, 1994	November 1, 2015	6.30%	10,300	9,065
1995 Series A/B/C, dated February 2, 1995	November 1, 2015	7.51%	24,630	20,535
1995 Series D, dated April 26, 1995	November 1, 2015	8.13%	12,855	11,550
1995 Series E/F, dated June 29, 1995	May 1, 2014	6.19%	5,225	4,305
1995 Series G, dated October 3, 1995	November 1, 2014	7.61%	16,375	14,675
1995 Series H/I, dated October 3, 1995	November 1, 2015	6.01%	63,230	54,845
1995 Series J, dated October 26, 1995	November 1, 2014	7.10%	7,950	6,985
1995 Series K/L, dated October 26, 1995	November 1, 2015	5.88%	29,815	25,965
1996 Series A/B/C, dated January 11, 1996	May 1, 2016	6.43%	64,500	56,730
1996 Series D/E/F, dated March 28, 1996	May 1, 2016	6.70%	33,720	30,365
1996 Series G, dated April 25, 1996	May 1, 2016	7.76%	5,775	5,280
1996 Series H/I, dated April 25, 1996	May 1, 2016	5.94%	36,390	31,720
1996 Series J, dated August 8, 1996	May 1, 2017	6.15%	21,450	19,715
1996 Series K/L/M, dated October 1, 1996	November 1, 2017	6.36%	18,535	17,270
1996 Series N/O, dated December 19, 1996	November 1, 2017	6.55%	24,080	22,740
1997 Series A/B, dated May 15, 1997	November 1, 2019	6.90%	51,825	49,090
1997 Series C/D/E, dated September 11, 1997	November 1, 2019	6.20%	54,940	53,575
1997 Series F, dated October 16, 1997	November 1, 2017	5.34%	7,930	7,535
1997 Series G/H/I, dated December 18, 1997	May 1, 2019	6.24%	58,260	55,770
1998 Series A, dated April 23, 1998	November 1, 2019	6.79%	60,780	51,355
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998	November 1, 2018	5.29%	59,140	57,205

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2000</u>
(Amounts shown in thousands)				
1998 Series F, dated July 29, 1998	May 1, 2019	6.50%	\$ 33,565	32,735
1998 Series G, dated July 29, 1998	November 1, 2018	5.10%	50,720	49,340
1998 Series H, dated October 27, 1998	May 1, 2019	6.31%	37,715	36,715
1998 Series I, dated October 27, 1998	November 1, 2019	4.94%	36,800	36,235
1999 Series A/B, dated January 28, 1999	May 1, 2019	5.74%	79,705	<u>78,520</u>
				1,336,557
Compounded interest payable				<u>7,397</u>
				1,343,954
Unamortized discount				<u>(58,004)</u>
Total Multi-Family Housing Bonds				<u>1,285,950</u>
<u>Rental Housing Bonds</u>				
1999 Series C/D/E/F, dated May 20, 1999	May 1, 2022	5.89%	49,225	49,225
1999 Series G/H, dated August 19, 1999	May 1, 2022	6.70%	56,515	56,515
1999 Series I/J, dated November 4, 1999	February 1, 2023	6.83%	37,810	37,810
1999 Series K/L, dated December 16, 1999	February 1, 2023	6.21%	36,910	36,910
2000 Series A/B, dated May 10, 2000	August 1, 2024	7.14%	63,240	<u>63,240</u>
				243,700
Unamortized premium				<u>628</u>
				<u>244,328</u>
Total Multi-Family Housing and Rental Housing Bond Group				<u>1,530,278</u>
<u>Other Multi-Family Lending Programs</u>				
<u>Multi-Family Mortgage Purchase Bonds</u>				
1973 Series A, dated December 1, 1973	June 1, 2014	5.73%	53,140	26,860
Unamortized premium				<u>38</u>
				<u>26,898</u>

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2000</u>
<u>Multi-Family Mortgage Bonds</u>				
1977 Series A, dated April 1, 1977	November 1, 2018	6.43%	\$ 27,580	20,295
1977 Series B, dated November 1, 1977	November 1, 2020	6.40%	42,240	32,820
1978 Series A, dated April 1, 1978	November 1, 2020	6.20%	42,000	33,280
1978 Series B, dated October 1, 1978	November 1, 2021	6.71%	50,250	<u>39,930</u>
				126,325
Unamortized discount				<u>(334)</u>
				<u>125,991</u>
Total Other Multi-Family Lending Programs				<u>152,889</u>
<u>Commonwealth Mortgage Bonds</u>				
1986 Series A, dated July 29, 1986	January 1, 2013	7.65%	95,000	1,000
1986 Series B/C/D, dated November 3, 1986	July 1, 2013	6.92%	62,695	1,000
1987 Series A, dated July 15, 1987 and July 30, 1987	July 1, 2017	8.37%	101,755	1,040
1987 Series B/C, dated November 1, 1987 and December 4, 1987	January 1, 2028	8.32%	278,665	1,000
1988 Series A/B, dated July 21, 1988	July 1, 2038	7.87%	166,215	1,000
1988 Series C/D, dated December 14, 1988	January 1, 2038	7.66%	83,855	1,000
1992 Series A/B/C, dated March 15, 1992, April 28, 1992 and June 15, 1992	January 1, 2033	6.28%	889,330	650,900
1993 Series A/B, dated February 25, 1993	July 1, 2022	5.67%	159,600	19,485
1993 Series E/F, dated August 31, 1993	July 1, 2022	5.94%	156,000	6,495
1993 Series G/H, dated November 1, 1993	July 1, 2027	5.30%	71,120	71,120
1993 Series I/J, dated November 5, 1993	July 1, 2020	5.91%	163,200	6,200
1994 Series C/D, dated April 5, 1994	January 1, 2024	5.81%	96,000	17,205
1994 Series G/H, dated August 9, 1994	July 1, 2022	6.57%	240,000	94,800
1994 Series I/J, dated November 8, 1994	July 1, 2022	6.59%	217,805	69,875
1995 Series A/B, dated February 14, 1995, February 28, 1995, March 14, 1995 and March 28, 1995	July 1, 2028	6.68%	362,000	167,650
1995 Series C/D, dated June 22, 1995	January 1, 2030	6.01%	399,000	338,570
1996 Series A, dated May 23, 1996	July 1, 2029	8.00%	30,000	5,290
1996 Series B/C, dated June 20, 1996	July 1, 2026	6.08%	254,680	207,965
1996 Series D, dated October 1, 1996	January 1, 2016	7.58%	40,000	33,300
1996 Series E/F, dated December 18, 1996	January 1, 2046	5.21% adjustable	190,000	140,000
1996 Series G/H, dated December 19, 1996	January 1, 2022	5.00%	78,500	74,060
1997 Series A, dated June 12, 1997	January 1, 2046	7.28%	275,000	188,900
1997 Series B/C, dated June 12, 1997	January 1, 2022	5.13%	100,700	96,355
1998 Series A/B/C, dated January 1, 1998	January 1, 2047	5.23% adjustable	500,000	499,515
1998 Series D/E, dated July 28, 1998	July 1, 2021	5.19%	195,560	189,310
1998 Series F, dated October 27, 1998	April 1, 2020	6.39%	372,000	330,245

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2000</u>
(Amounts shown in thousands)				
1999 Series A, dated June 29, 1999	October 1, 2020	7.38%	284,000	229,000
2000 Series A/B, dated March 31, 2000	July 1, 2018	4.94% adjustable	235,245	235,245
2000 Series C, dated March 31, 2000	July 1, 2021	7.59%	2,500	<u>2,500</u>
				3,680,025
Unamortized premium				<u>22,179</u>
Total Commonwealth Mortgage Bonds				<u>3,702,204</u>
Memorandum Only Total				<u>\$ 5,441,287</u>

Compounded interest payable in the Multi-Family Housing Bonds represents interest which is compounded and paid to bondholders at maturity or redemption rather than being paid currently.

The Multi-Family Mortgage Purchase Bonds are special obligations of the Authority; all other notes and bonds issued to date are general obligations of the Authority. The notes and bonds are secured to the extent and as provided in the various resolutions. Security generally includes the mortgage loans made or purchased under the resolution, the revenues, prepayment and recovery payments received, derived, or recovered by the Authority from or related to mortgage loans, and all monies and investments in the funds and accounts pledged under the various resolutions. Bonds payable are generally comprised of both serial and term bonds and are due at various dates through the final due date.

The Authority has the option to redeem the various bonds at premiums ranging up to 3% with the exception of the term bonds due November 1, 2017 within the Multi-Family Housing Bonds, 1982 Series A. These zero coupon interest rate bonds are redeemable at the "Optional Redemption Price" set forth in detail within the series resolution. The redemptions generally cannot be exercised until the bonds have been outstanding for ten to fifteen years, as fully described in the various bond resolutions. All issues generally have term bonds, which will be subject to redemption, without premium, from mandatory sinking fund installments. Special redemption accounts are also utilized when certain conditions exist as described in the applicable bond resolutions.

The principal payment obligations related to all note and bond indebtedness (excluding the effect of unamortized discounts and premiums) for the five years commencing July 1, 2000 and thereafter are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Remaining</u>
(Amounts shown in thousands)						
FHLB Notes	\$ 28,340	-	-	-	-	-
VHDA General Purpose Bonds	785	800	1,000	1,000	1,000	23,035
Multi-Family Housing Bonds	51,362	53,571	55,638	58,471	58,707	1,066,205
Rental Housing Bonds	1,100	4,125	5,700	6,110	6,435	220,230
Multi-Family Mortgage Purchase Bonds	-	-	-	1,670	1,935	23,255
Multi-Family Mortgage Bonds	2,200	2,985	3,505	3,730	3,955	109,950
Commonwealth Mortgage Bonds	<u>192,940</u>	<u>128,125</u>	<u>137,680</u>	<u>136,605</u>	<u>132,400</u>	<u>2,952,275</u>
Memorandum Only Totals	<u>\$ 276,727</u>	<u>189,606</u>	<u>203,523</u>	<u>207,586</u>	<u>204,432</u>	<u>4,394,950</u>

(6) 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. The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2000, these project reserves amounted to approximately \$127,029,000.

(7) Investment Income

The amount of investment income the Authority may earn in the Commonwealth Mortgage Bond Group and certain bond issues in the Multi-Family Housing and Rental Housing Bond Group is limited by certain Federal legislation. Earnings in excess of the allowable amount must be rebated to either the mortgagor or the U.S. Department of the Treasury depending upon the specific bond series in which the rebates occurs. These amounts are recorded in accounts payable and other liabilities and amounted to \$7,550,584 at June 30, 2000.

(8) Risk Management

The Authority manages its interest risk on single and multi-family loan commitments through short sales of investment securities. These transactions meet the requirements for hedge accounting as all hedged items are specifically identified, probable of occurring, and highly correlated to the hedging instrument. The gain or loss from hedging transactions is recorded as an unamortized premium or discount and recognized as an adjustment to yield over the remaining life of the loan. The Authority periodically assesses correlation in order to determine the ongoing appropriateness of hedge accounting.

During the year ended June 30, 2000, the Authority experienced a net loss of \$400,395 from hedging transactions settled during the year. At June 30, 2000, \$23,628,443 of short sales were outstanding (included in accounts payable and other liabilities in the General Fund) which had an unrealized loss of \$727,210. The Authority's policy is to make adjustments to interest rates of loans related to such hedging transactions to reflect the losses or gains on such hedging transactions.

(9) Fund Balances

Restricted fund balances represent those portions of the total fund balances in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted fund balances are generally required reserve funds, mortgage loans and funds held for placement into mortgage loans, investments, and funds held for scheduled debt service.

Designated fund balances represent those portions of the total fund balances set aside to reflect current utilization and tentative plans for future utilization of such fund balances. As of June 30, 2000, the Authority had designated fund balances including \$172,018,182 for the Virginia Housing Fund and \$38,000,000 for a line of credit to the Virginia Housing Partnership Fund. The balance of the designations in the amount of \$11,219,607 includes funds to be available for other loans and loan commitments; overcommitments and overallocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional designated fund balance 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.

(10) Employee Benefit Plans

The Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense for the year ended June 30, 2000 was \$1,205,727.

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 financial statements.

As of June 30, 2000, included in the General Fund accounts payable and other liabilities is an employee compensated absences accrual of \$2,259,525.

Funding amounts for the postretirement health care benefits offered are approved annually by the Board of Commissioners. Included in the General Fund accounts payable and other liabilities is a postretirement health care benefit liability of \$2,515,353 as of June 30, 2000. Total expense incurred for these benefits for the year ended June 30, 2000 was \$262,546.

(11) 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 financial statements of the Authority.

The Authority participates in several Federal financial assistance programs, principal of which is the Lower Income Housing Assistance Program. 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 through June 30, 2000, 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.

(12) Subsequent Events

On August 3, 2000, the Authority sold \$64,385,000 of Rental Housing Bonds, 2000 Series C/D/E.