



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, 2001, 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, 2001, 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 14, 2001, 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 14, 2001



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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Balance Sheet

June 30, 2001

Assets	General Fund	Multi-Family Lending Programs		Single Family Lending Program	Memorandum Only Totals	
		Multi-Family Housing and Rental Bond Groups	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	Totals	
					2001	2000
Cash (note 4)	\$ 12,513,065	604,793	6,743	2,410,548	15,535,149	4,458,897
Cash equivalents (note 4)	85,363,473	89,403,000	6,335,629	373,371,353	554,473,455	510,070,426
Total cash and cash equivalents	97,876,538	90,007,793	6,342,372	375,781,901	570,008,604	514,529,323
Investments (note 4)	294,274,300	232,315,578	22,611,594	595,478,653	1,144,680,125	1,226,592,669
Interest receivable - investments	2,088,079	1,411,739	286,552	990,495	4,776,865	6,330,259
Mortgage and other loans receivable (note 3)	174,520,549	1,642,561,823	124,130,189	3,691,477,394	5,632,689,955	5,202,059,392
Less net deferred loan fees	687,364	24,337,240	332,586	13,155,060	38,512,250	36,332,033
Mortgage & other loans receivable - net	173,833,185	1,618,224,583	123,797,603	3,678,322,334	5,594,177,705	5,165,727,359
Interest receivable - mortgage and other loans	1,291,371	10,666,087	770,855	17,217,414	29,945,727	26,523,954
Investment in rental property - net	3,049,512	15,092,000	-	-	18,141,512	18,620,618
Property, furniture and equipment, less accumulated depreciation and amortization of \$21,793,924	17,173,866	-	-	-	17,173,866	17,425,307
Unamortized bond issuance expenses	137,935	3,549,568	114,205	2,288,553	6,090,261	6,143,193
Other real estate owned	238,650	-	-	6,031,674	6,270,324	7,258,365
Other assets	3,581,244	-	-	10,169,863	13,751,107	9,486,730
Total assets	\$ 593,544,680	1,971,267,348	153,923,181	4,686,280,887	7,405,016,096	6,998,637,777
Liabilities and Fund Balances						
Notes and bonds payable - net (note 5)	\$ 55,155,599	1,676,991,985	150,713,649	3,827,426,520	5,710,287,753	5,441,286,724
Accrued interest payable on notes and bonds	861,114	21,933,624	1,459,213	78,706,534	102,960,485	102,306,123
Allowance for loan loss	17,084,961	-	-	-	17,084,961	14,584,961
Section 8 contributions payable	11,448,278	-	-	-	11,448,278	12,839,833
Escrows and project reserves (note 6)	165,479,021	-	-	-	165,479,021	147,572,428
Virginia Housing Partnership Revolving Fund liability	84,069,367	-	-	-	84,069,367	82,189,814
Accounts payable and other liabilities (note 4, 7 and 10)	29,573,819	8,538,700	-	48,647,047	86,759,566	87,163,492
Total liabilities	363,672,159	1,707,464,309	152,172,862	3,954,780,101	6,178,089,431	5,887,943,375
Restricted fund balances (note 9)	-	263,803,039	1,750,319	731,500,786	997,054,144	889,456,613
Designated fund balances (note 9)	229,872,521	-	-	-	229,872,521	221,237,789
Total fund balances	229,872,521	263,803,039	1,750,319	731,500,786	1,226,926,665	1,110,694,402
Commitments, contingencies and subsequent events (notes 3, 8, 9,10,11 and 12)						
Total liabilities and fund balances	\$ 593,544,680	1,971,267,348	153,923,181	4,686,280,887	7,405,016,096	6,998,637,777

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Balances
Year ended June 30, 2001

Revenues	General Fund	Multi-Family Lending Programs		Single Family Lending Program	Memorandum Only Totals	
		Multi-Family Housing and Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	2001	2000
Interest on mortgage and other loans	\$ 4,736,573	126,647,037	9,740,527	263,384,448	404,508,585	378,095,089
Investment income (note 7)	16,436,211	29,852,418	3,022,788	46,768,284	96,079,701	89,811,612
Pass-through grants received	132,229,051	-	-	-	132,229,051	133,802,624
Section 8 fee income earned	2,701,081	-	-	-	2,701,081	2,671,874
Gains and recoveries on sale of other real estate owned	7,833	-	-	1,711,448	1,719,281	1,972,087
Other	5,914,211	1,948,367	-	-	7,862,578	5,553,432
Total revenues	162,024,960	158,447,822	12,763,315	311,864,180	645,100,277	611,906,718
Expenses						
Interest on notes and bonds	5,359,680	106,778,991	9,598,783	222,471,043	344,208,497	336,995,497
Salaries and related employee benefits	22,297,314	-	-	-	22,297,314	20,368,048
General operating expenses	14,959,171	308,000	-	-	15,267,171	14,417,309
Amortization of bond issuance expenses	7,663	450,275	5,897	251,895	715,730	762,670
Pass-through grants disbursed	132,229,051	-	-	-	132,229,051	133,802,624
Section 8 program expenses	3,076,530	-	-	-	3,076,530	2,893,653
External mortgage servicing expenses	46,062	-	15,522	6,252,685	6,314,269	8,308,769
Losses and expenses on other real estate owned and provision for loan losses	2,567,233	-	-	2,192,219	4,759,452	2,463,487
Total expenses	180,542,704	107,537,266	9,620,202	231,167,842	528,868,014	520,012,057
Excess (deficiency) of revenue over expenses	(18,517,744)	50,910,556	3,143,113	80,696,338	116,232,263	91,894,661
Fund balances at beginning of year	221,237,789	227,479,147	3,000,758	658,976,708	1,110,694,402	1,018,799,741
Transfers between funds	27,152,476	(14,586,664)	(4,393,552)	(8,172,260)	-	-
Fund balances at end of year	\$ 229,872,521	263,803,039	1,750,319	731,500,786	1,226,926,665	1,110,694,402

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows
Year ended June 30, 2001

	Multi-Family Lending Programs			Single Family Lending Program	Memorandum Only Totals	
	General Fund	Multi-Family Housing and Rental Bond Groups	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	2001	2000
Cash flows from operating activities:						
Cash payments for mortgage and other loans	\$ (34,817,724)	(235,867,217)	-	(622,808,759)	(893,493,700)	(693,828,631)
Principal repayments on mortgage and other loans	14,219,644	45,373,592	3,828,730	386,727,952	450,149,918	377,482,049
Interest received on mortgage and other loans	4,572,390	125,362,571	9,643,089	260,051,246	399,629,296	388,442,960
Section 8 contributions and pass-through grants received	140,370,607	-	-	-	140,370,607	152,885,352
Section 8 contributions and pass-through grants disbursed	(141,807,008)	-	-	-	(141,807,008)	(143,024,000)
Cash received for Virginia Housing Partnership						
Fund program	2,359,909	-	-	-	2,359,909	2,346,272
Grants made from Virginia Housing Partnership						
Fund program	(98,016)	-	-	-	(98,016)	(204,972)
Escrow payments received	134,193,903	-	-	-	134,193,903	83,994,250
Escrow payments disbursed	(118,595,711)	-	-	-	(118,595,711)	(74,090,104)
Other operating revenues	7,922,938	1,948,366	-	-	9,871,304	6,754,053
Cash received from loan origination fees	3,239,286	-	-	7,383,724	10,623,010	9,675,129
Cash payments for salaries and related benefits	(22,952,741)	-	-	-	(22,952,741)	(19,992,847)
Cash payments for general operating expenses	(23,172,988)	(5,313)	-	-	(23,178,301)	(19,343,054)
Cash payments for mortgage servicing expenses	(42,493)	-	(15,523)	(5,525,968)	(5,583,984)	(8,287,908)
Proceeds from sale of other real estate owned	202,778	-	-	31,626,165	31,828,943	34,781,468
Net cash provided by (used in) operating activities	(34,405,226)	(63,188,001)	13,456,296	57,454,360	(26,682,571)	97,590,017
Cash flows from noncapital financing activities:						
Proceeds from sale of notes and bonds	179,740,000	260,095,000	-	469,563,360	909,398,360	667,665,000
Principal payments on notes and bonds	(179,740,000)	(113,349,115)	(2,200,000)	(337,626,464)	(632,915,579)	(1,096,750,143)
Interest payments on notes and bonds	(3,870,544)	(97,605,336)	(9,596,431)	(224,214,097)	(335,286,408)	(332,500,710)
Cash payments for bond issuance expenses	(9,605,766)	-	-	(4,034,876)	(13,640,642)	(3,778,216)
Redemption premium paid on bond calls	-	(540,306)	-	-	(540,306)	(219,698)
Transfers (to) from other funds	49,920,756	(15,527,204)	(4,393,552)	(30,000,000)	-	-
Net cash provided by (used in) non-capital financing activities	36,444,446	33,073,039	(16,189,983)	(126,312,077)	(72,984,575)	(765,583,767)
Cash flows from capital and related financing activities:						
Principal payments on building bonds	(785,000)	-	-	-	(785,000)	(750,000)
Interest payments on building bonds	(1,544,140)	-	-	-	(1,544,140)	(1,580,230)
Purchases of furniture and fixtures	(2,139,739)	-	-	-	(2,139,739)	(1,560,471)
Net cash used in capital and related financing activities	(4,468,879)	-	-	-	(4,468,879)	(3,890,701)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows, Continued

	General Fund	Multi-Family Lending Programs		Single Family Lending Program	Memorandum Only Totals	
		Multi-Family Housing and Rental Bond Groups	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	Totals	
					2001	2000
Cash flows from investing activities:						
Purchases of investments	\$ (491,862,188)	(239,277,415)	(10,225,473)	(709,006,632)	(1,450,371,708)	(1,421,426,070)
Proceeds from sales or maturities of investments	497,139,523	231,649,841	11,762,172	781,464,414	1,522,015,950	1,666,433,218
Interest received on investments	9,334,934	23,389,588	1,901,189	53,345,353	87,971,064	98,909,459
Net cash provided by (used in) investing activities	14,612,269	15,762,014	3,437,888	125,803,135	159,615,306	343,916,607
Net increase (decrease) in cash and cash equivalents	12,182,610	(14,352,948)	704,201	56,945,418	55,479,281	(327,967,844)
Cash and cash equivalents at beginning of year	85,693,928	104,360,741	5,638,171	318,836,483	514,529,323	842,497,167
Cash and cash equivalents at end of year	\$ 97,876,538	90,007,793	6,342,372	375,781,901	570,008,604	514,529,323

Reconciliation of excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:

Excess (deficiency) of revenues over expenses	\$ (18,517,744)	50,910,556	3,143,113	80,696,338	116,232,263	91,894,661
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:						
Gain on sale of furniture and fixtures	(84,921)	-	-	-	(84,921)	-
Depreciation of property, furniture and equipment	2,647,208	308,000	-	-	2,955,208	2,828,327
Other depreciation and amortization	11,232	450,274	(107,646)	976,953	1,330,813	918,234
Investment income	(16,436,211)	(29,852,418)	(3,022,788)	(46,768,284)	(96,079,701)	(89,811,612)
Interest on notes and bonds	5,359,680	106,778,991	9,598,783	222,471,043	344,208,497	336,995,497
(Increase) decrease in mortgage and other loans receivable	(20,000,970)	(190,625,237)	3,828,730	(223,869,115)	(430,666,592)	(283,666,227)
(Increase) decrease in interest receivable-mortgage and other loans	(57,075)	(1,120,695)	16,104	(2,292,616)	(3,454,282)	5,645,621
(Increase) decrease in other real estate owned	(17,084)	-	-	763,414	746,330	6,491,853
(Increase) decrease in other assets	2,843,839	-	-	(873,048)	1,970,791	9,289,287
Increase (decrease) in accounts payable and other liabilities	(9,423,883)	(5,313)	-	19,970,721	10,541,525	(9,356,103)

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows, Continued

	General Fund	Multi-Family Lending Programs		Single Family Lending Program	Memorandum Only	
		Multi-Family Housing and Rental Bond Groups	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	Totals 2001	2000
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.:						
Increase (decrease) in Section 8 contributions payable	\$ (1,391,555)	-	-	-	(1,391,555)	5,171,197
Increase in escrows and project reserves	15,598,192	-	-	-	15,598,192	9,904,146
Increase in Virginia Housing Partnership Fund liability	1,931,889	-	-	-	1,931,889	1,608,904
Increase (decrease) in net deferred loan fees	3,132,177	(32,159)	-	6,378,954	9,478,972	9,676,232
Net cash provided by (used in) operating activities	\$ (34,405,226)	(63,188,001)	13,456,296	57,454,360	(26,682,571)	97,590,017
Supplemental disclosure of non-cash investing activity-increase in other real estate owned as a result of loan foreclosures	\$ 237,892	-	-	31,685,740	31,923,632	25,950,245

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2001

(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 accounting principles generally accepted in the United States of America, 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 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 three multi-family apartment complexes, including 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 thirty years for the building and five years for furniture and equipment. The investment is carried net of accumulated depreciation of \$2,313,259.

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. The provision for loan losses was \$2,500,000 for the year ended June 30, 2001.

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 \$132,229,051 during the year ended June 30, 2001.

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, 2001, 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 2000 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 9.51%	Thirty to forty years
Multi-Family Mortgage Purchase Bond Group	7.00% to 11.11%	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	0.00% 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, 2001:

	<u>June 30, 2001</u>
Multi-Family Housing and Rental Housing Bond Group	\$ 205,430,000
Commonwealth Mortgage Bond Group	<u>195,601,000</u>
	\$ <u>401,031,000</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 \$193.0 million as of June 30, 2001 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.

(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, 2001, the carrying amount of the Authority's deposits was \$15,535,149 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$4,142,635. The associated bank balance of the Authority's deposits was \$16,456,667. 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 June 30, 2001.

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, 2001 were as follows:

	June 30, 2001		Fair value
	Category 1	Category 2	
Repurchase agreements	\$ 451,695,632	20,514,489	472,210,121
Interest bearing checking	11,954,183	-	11,954,183
Municipal tax-exempt securities	<u>900,000</u>	<u>-</u>	<u>900,000</u>
Totals	\$ <u>464,549,815</u>	<u>20,514,489</u>	485,064,304

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

NationsBank treasury portfolio		336,629
Federal Home Loan Bank Note		4,072,522
Security Life of Denver Guaranteed Funding Agreement		<u>65,000,000</u>
Total cash equivalents	\$	<u>554,473,455</u>

Category 1 credit risk for investments includes insured or registered investments or securities held by the Authority or its agent in the Authority's name.

The credit risk categorization and fair value of the Authority's investments at June 30, 2001 (all of which were classified Category 1) were as follows:

	June 30, 2001	
		Fair value
U.S. Government and agency securities	\$	106,910,121
Corporate notes		22,588,770
Municipal tax-exempt securities		29,697,816
Asset backed securities		302,699,227
Agency mortgage backed		<u>145,349,191</u>
Totals		607,245,125

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

Security Life of Denver Guaranteed Funding Agreement		59,100,000
Lehman Brothers Special Financing Agent		475,000,000
Federal Home Loan Bank Note		<u>3,335,000</u>
Total investments	\$	<u>1,144,680,125</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, 2001 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, 2001</u>
(Amounts shown in thousands)				
<u>General Fund</u>				
<u>Notes</u>				
Federal Home Loan Bank	No fixed maturity	floating rate (weighted average rate of 4.27% at June 30, 2001)	\$ 28,340	28,340
<u>VHDA General Purpose Bonds</u>				
1993 Bonds dated June 16, 1993	July 1, 2019	5.79%, adjustable	29,070	26,835
Unamortized discount				<u>(19)</u>
Total General Fund				<u>26,816</u> <u>55,156</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	10.60%	256,970	48,155
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	703
1989 Series D, dated September 15, 1989 and October 11, 1989	November 1, 2014	7.37%	14,202	3,968
1990 Series A, dated December 1, 1989	May 1, 2010	7.48%	4,040	735
1991 Series A, dated January 15, 1991	May 1, 2011	9.60%	7,735	1,035
1991 Series B/C, dated April 15, 1991	May 1, 2014	6.90%	7,730	1,550
1991 Series F, dated August 15, 1991	May 1, 2013	7.05%	44,300	26,610
1992 Series A, dated January 15, 1992	May 1, 2013	7.98%	4,160	3,160
1992 Series B, dated March 1, 1992	May 1, 2008	7.86%	3,360	1,960

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2001</u>
(Amounts shown in thousands)				
1992 Series C/D, dated March 15, 1992	May 1, 2018	6.88%	\$ 80,155	64,360
1992 Series E, dated June 9, 1992	May 1, 2015	6.68%	5,200	4,160
1992 Series F/G, dated October 1, 1992 and October 14, 1992	November 1, 2022	6.26%	17,695	15,045
1992 Series H, dated October 14, 1992	May 1, 2018	7.85%	33,000	15,800
1993 Series A, dated February 10, 1993	November 1, 2015	7.79%	19,380	13,860
1993 Series B, dated April 1, 1993	May 1, 2016	6.42%	23,520	6,520
1993 Series C/D/E/F, dated April 1, 1993, May 1, 1993 and June 1, 1993	November 1, 2017	5.64%	159,240	130,000
1993 Series G, dated August 1, 1993	November 1, 2015	6.76%	6,710	5,565
1993 Series H, dated November 1, 1993	May 1, 2013	5.09%	9,100	6,840
1994 Series A, dated March 1, 1994	November 1, 2015	6.94%	18,720	15,380
1994 Series B/C, dated April 1, 1994	May 1, 2015	5.99%	36,410	25,210
1994 Series D, dated April 1, 1994	May 1, 2015	7.78%	35,200	23,850
1994 Series F/G, dated June 1, 1994	May 1, 2015	6.34%	14,630	11,660
1994 Series H, dated September 1, 1994	November 1, 2015	6.30%	10,300	8,715
1995 Series A/B/C, dated February 2, 1995	November 1, 2015	7.51%	24,630	19,255
1995 Series D, dated April 26, 1995	November 1, 2015	8.13%	12,855	11,165
1995 Series E/F, dated June 29, 1995	May 1, 2014	6.14%	5,225	4,100
1995 Series G, dated October 3, 1995	November 1, 2014	7.61%	16,375	14,085
1995 Series H/I, dated October 3, 1995	November 1, 2015	6.01%	63,230	52,505
1995 Series J, dated October 26, 1995	November 1, 2014	7.10%	7,950	6,700
1995 Series K/L, dated October 26, 1995	November 1, 2015	5.88%	29,815	24,885
1996 Series A/B/C, dated January 11, 1996	May 1, 2016	6.55%	64,500	54,440
1996 Series D/E/F, dated March 28, 1996	May 1, 2016	6.70%	33,720	29,205
1996 Series G, dated April 25, 1996	May 1, 2016	7.76%	5,775	5,095
1996 Series H/I, dated April 25, 1996	May 1, 2016	5.94%	36,390	30,400
1996 Series J, dated August 8, 1996	May 1, 2017	6.15%	21,450	19,000
1996 Series K/L/M, dated October 1, 1996	November 1, 2017	6.36%	18,535	16,720
1996 Series N/O, dated December 19, 1996	November 1, 2017	6.54%	24,080	21,990
1997 Series A/B, dated May 15, 1997	November 1, 2019	6.91%	51,825	47,570
1997 Series C/D/E, dated September 11, 1997	November 1, 2019	6.27%	54,940	52,140
1997 Series F, dated October 16, 1997	November 1, 2017	5.33%	7,930	7,270
1997 Series G/H/I, dated December 18, 1997	May 1, 2019	6.25%	58,260	54,040
1998 Series A, dated April 23, 1998	November 1, 2019	6.79%	60,780	49,975
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998	November 1, 2018	5.16%	59,140	55,265

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2001</u>
(Amounts shown in thousands)				
1998 Series F, dated July 29, 1998	May 1, 2019	6.65%	\$ 33,565	31,790
1998 Series G, dated July 29, 1998	November 1, 2018	5.10%	50,720	47,615
1998 Series H, dated October 27, 1998	May 1, 2019	6.31%	37,715	35,655
1998 Series I, dated October 27, 1998	November 1, 2019	4.94%	36,800	35,065
1999 Series A/B, dated January 28, 1999	May 1, 2019	5.99%	79,705	<u>76,080</u>
				1,239,691
Compounded interest payable				<u>2,845</u>
				1,242,536
Unamortized discount				<u>(35,273)</u>
Total Multi-Family Housing Bonds				<u>1,207,263</u>
<u>Rental Housing Bonds</u>				
1999 Series C/D/E/F, dated May 20, 1999	May 1, 2022	5.89%	49,225	48,125
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	63,240
2000 Series C, dated August 3, 2000	April 1, 2024	8.18%	17,455	17,455
2000 Series D/E, dated August 3, 2000	April 1, 2024	5.98%	46,930	46,930
2000 Series F/G/H, dated October 12, 2000	October 1, 2024	6.90%	65,105	65,105
2001 Series A/B, dated January 9, 2001	March 1, 2025	7.02%	63,120	63,120
2001 Series C/D, dated March 22, 2001	June 1, 2024	5.87%	14,850	14,850
2001 Series E/F/G, dated April 26, 2001	June 1, 2025	5.94%	21,830	<u>21,830</u>
				471,890
Unamortized discount				<u>(2,161)</u>
				<u>469,729</u>
Total Multi-Family Housing and Rental Housing Bond Group				<u>1,676,992</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>34</u>
				<u>26,894</u>

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2001</u>
<u>Multi-Family Mortgage Bonds</u>				
1977 Series A, dated April 10, 1977	November 1, 2018	6.43%	\$ 27,580	19,675
1977 Series B, dated November 1, 1977	November 1, 2020	6.40%	42,240	32,005
1978 Series A, dated April 1, 1978	November 1, 2020	6.20%	42,000	32,515
1978 Series B, dated October 1, 1978	November 1, 2021	6.71%	50,250	<u>39,930</u>
				124,125
Unamortized discount				<u>(305)</u>
				<u>123,820</u>
Total Other Multi-Family Lending Programs				<u>150,714</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	592,310
1993 Series A/B, dated February 25, 1993	July 1, 2022	5.67%	159,600	10,825
1993 Series E/F, dated August 31, 1993	July 1, 2022	5.94%	156,000	4,200
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	4,325
1994 Series C/D, dated April 5, 1994	January 1, 2024	5.81%	96,000	11,910
1994 Series G/H, dated August 9, 1994	July 1, 2022	6.57%	240,000	69,800
1994 Series I/J, dated November 8, 1994	July 1, 2022	6.59%	217,805	48,500
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	92,150
1995 Series C/D, dated June 22, 1995	January 1, 2030	6.01%	399,000	295,675
1996 Series A, dated May 23, 1996	July 1, 2029	8.00%	30,000	4,990
1996 Series B/C, dated June 20, 1996	July 1, 2026	6.08%	254,680	183,990
1996 Series D, dated October 1, 1996	January 1, 2016	7.58%	40,000	30,100
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	69,705
1997 Series A, dated June 12, 1997	January 1, 2046	7.28%	275,000	174,490
1997 Series B/C, dated June 12, 1997	January 1, 2022	5.13%	100,700	92,775
1998 Series A/B/C, dated January 1, 1998	January 1, 2047	5.23% adjustable	500,000	498,160
1998 Series D/E, dated July 28, 1998	July 1, 2021	5.19%	195,560	183,825
1998 Series F, dated October 27, 1998	April 1, 2020	6.39%	372,000	311,435

<u>Description</u>	<u>Final Due Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Amount Outstanding June 30, 2001</u>
(Amounts shown in thousands)				
1999 Series A/B, dated June 29, 1999	October 1, 2020	7.38%	284,000	221,975
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	2,500
2001 Series A, dated January 30, 2001	February 25, 2030	6.5%	181,688	173,134
2001 Series B, dated May 4, 2001	May 25, 2031	6.5% adjustable	103,135	103,043
2001 Series C/D, dated June 13, 2001	July 1, 2027	3.52% adjustable	179,740	<u>179,740</u>
				3,811,962
Unamortized premium				<u>15,464</u>
Total Commonwealth Mortgage Bonds				<u>3,827,426</u>
Memorandum Only Total				<u>\$ 5,710,288</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, 2001 and thereafter are as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Remaining</u>
(Amounts shown in thousands)						
FHLB Notes	\$ 28,340	-	-	-	-	-
VHDA General Purpose Bonds	800	1,000	1,000	1,000	990	22,045
Multi-Family Housing Bonds	51,851	54,298	57,051	57,157	59,283	962,896
Rental Housing Bonds	5,605	10,125	11,470	12,105	12,825	419,760
Multi-Family Mortgage Purchase Bonds	-	-	1,670	1,935	2,045	21,210
Multi-Family Mortgage Bonds	2,985	3,505	3,730	3,955	4,205	105,745
Commonwealth Mortgage Bonds	<u>283,900</u>	<u>190,104</u>	<u>180,284</u>	<u>163,938</u>	<u>152,027</u>	<u>2,841,709</u>
Memorandum Only Totals	<u>\$ 373,481</u>	<u>259,032</u>	<u>255,205</u>	<u>240,090</u>	<u>231,375</u>	<u>4,373,365</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, 2001, these project reserves amounted to approximately \$135,472,000.

(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 excess earnings are recorded in accounts payable and other liabilities and amounted to \$9,880,951 at June 30, 2001.

(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, 2001, the Authority experienced a net loss of \$6,009,434 from hedging transactions settled during the year. At June 30, 2001, \$120,000,000 of short sales were outstanding which had an unrealized gain of \$1,350,000. 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, 2001, in addition to the \$192,827,827 designated for the Virginia Housing Fund, the Authority had additional designations in the amount of \$37,044,694 including a line of credit to the Virginia Housing Partnership Fund, 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, 2001 was \$1,353,577.

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, 2001, included in the General Fund accounts payable and other liabilities is an employee compensated absences accrual of \$2,381,562.

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 \$3,078,882 as of June 30, 2001. Total expense incurred for these benefits for the year ended June 30, 2001 was \$338,319.

(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, 2001, 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 July 31, 2001, the Authority sold \$50,230,000 of Rental Housing Bonds, 2001 Series H/I; and \$118,304,427 of Commonwealth Mortgage Bonds, 2001 Series F.

In addition to scheduled redemptions, on September 10, 2001, the Authority made special redemptions totaling \$80,560,000 of Commonwealth Mortgage Bonds.



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Richmond, VA 23219

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

Commissioners
Virginia Housing Development Authority:

We have audited the financial statements of Virginia Housing Development Authority, a component unit of the Commonwealth of Virginia as of and for the year ended June 30, 2001, and have issued our report thereon dated September 14, 2001. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Virginia Housing Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated September 14, 2001.

This report is intended for the information of the Board of Commissioners and the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these parties.

KPMG LLP

September 14, 2001



KPMG LLP, KPMG LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.