

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Financial Statements and Accompanying Schedules

June 30, 2002

(With Independent Auditors' Report Thereon)

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Table of Contents

	<b>Page</b>
Management's Discussion and Analysis	1
Independent Auditors' Report	5
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	11
<b>Schedules</b>	
1 Combining Schedule of Net Assets	34
2 Combining Schedule of Revenues, Expenses and Changes in Net Assets	36
3 Combining Schedule of Cash Flows	37
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

June 30, 2002

This section of the Virginia Housing Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2002. Please read it in conjunction with the Authority's financial statements, which follow this section. The overall financial statements consist of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes and supplemental information.

### Basic Financial Statements

Effective, July 1, 2001, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. In order to conform to the requirements of GASB 34, the following changes have been made to the Authority's financial statements:

- Net assets have been reclassified into the following categories:
  - Invested in capital assets, net of related debt
  - Restricted by bond indentures
  - Unrestricted
- The Statement of Net Assets has been modified to report a classified statement
- The Statement of Revenues, Expenses and Changes in Net Assets has been formatted to report operating and non-operating revenues and expenses
- The Statement of Cash Flows has been presented using the direct method

### Financial Highlights

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2002 and June 30, 2001.

- Total assets increased \$441.9 million (or 5.98%)
- Total liabilities increased \$324.8 million (or 5.27%)
- Total net assets increased \$117.1 million (or 9.54%)
- Investments decreased \$77.8 million (or 6.79%)
- Investment income decreased \$38.1 million (or 39.6%)
- Mortgage and other loans receivable increased \$288.4 million (or 5.12%)
- Interest on mortgage and other loans receivable increased \$34.2 million (or 8.45%)
- Notes and bonds payable increased \$353.2 million (or 6.19%)
- Interest on notes and bonds payable decreased \$7.6 million (or 2.20%)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

June 30, 2002

Primary factors that contributed to these changes were as follows:

- The mortgage loan portfolio experienced net growth despite a high volume of loan repayments
- Cash and cash equivalents also increased significantly while investments declined slightly
- The growth in total assets resulted principally from increased outstanding bonds issued, net of retirements, and the impact of operating income and non-operating revenues.
- Declines in investment income were more than offset by increases in mortgage and other loan income and decreases in note and bond interest costs

Financial Analysis of the Authority

The following table summarizes select financial information regarding the Authority's operations as of the dates and for the periods indicated:

	<b>June 30, 2002</b>	<b>June 30, 2001</b>	<b>% Increase (Decrease)</b>
Cash and cash equivalents	\$ 814,161,221	570,008,604	42.83%
Investments	1,066,905,240	1,144,680,125	(6.79%)
Mortgage and other loans receivable	5,921,143,180	5,632,689,955	5.12%
Other assets	27,648,883	40,552,451	(31.82%)
Total assets	<u>7,829,858,524</u>	<u>7,387,931,135</u>	<u>5.98%</u>
Notes and bonds payable	6,063,481,967	5,710,287,753	6.19%
Other liabilities	422,366,774	450,716,717	(6.29%)
Total liabilities	<u>6,485,848,741</u>	<u>6,161,004,470</u>	<u>5.27%</u>
Net assets	<u>\$ 1,344,009,783</u>	<u>1,226,926,665</u>	<u>9.54%</u>

Description of Net Assets. The Authority's Net Assets are reported on the Statement of Net Assets in the following three categories:

1. Invested in capital assets, net of related debt – which represents an office building and land, furniture and equipment, as well as an investment in rental property, less the current outstanding applicable debt.
2. Restricted by bond indentures – which reflects those net assets held in trust accounts for the benefit of the respective bond owners, subject to the resolution requirements of the various bond indentures.
3. Unrestricted – those portions of the total net assets, which while not restricted, have been designated for a broad range of housing initiatives such as the capitalization of the \$218.6 million Virginia Housing Fund.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

June 30, 2002

Net Assets as of June 30, 2002:

Invested in capital assets, net of related debt	\$ (1,938,122)
Restricted by bond indentures	1,099,302,214
Unrestricted	<u>246,645,691</u>
Total net assets	<u><u>\$ 1,344,009,783</u></u>

Results of Operations for the Year Ended June 30, 2002. The Authority had another strong year with operating revenues in excess of operating expenses plus non-operating revenues totaling \$117.1 million. The following table summarizes the key sources of revenues and expenses for the year (in millions):

Operating revenues:	
Interest on mortgage and other loans receivable	\$ 438.7
Pass-through grants received	122.1
Other operating revenues	<u>9.9</u>
Total operating revenues	<u>570.7</u>
Operating expenses:	
Interest on notes and bonds payable	336.6
Pass-through grants disbursed	122.1
Other operating expenses	<u>53.4</u>
Total operating expenses	<u>512.1</u>
Net operating income	<u>58.6</u>
Non-operating revenues:	
Investment income *	58.0
Other non-operating revenue	<u>0.5</u>
Total non-operating revenue	<u>58.5</u>
Change in net assets	<u><u>\$ 117.1</u></u>

\* Investment income includes fair market value adjustment totaling \$5.6 million for the year ended June 30, 2002

Long-Term Debt. As of June 30, 2002, the Authority had net outstanding notes and bonds payable totaling \$6.06 billion. This represented a net increase (additional new debt in excess of retirements for the year) of \$353.2 million over June 30, 2001. During the same time period, the Authority also experienced a decrease in interest on notes and bonds payable of \$7.6 million due to more favorable interest rates on new debt. The Authority has maintained its strong long-term bond ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

June 30, 2002

Future Management's Discussion and Analysis

As the Authority did not elect early implementation of GASB 34, only limited information was available for comparative purposes this year. In future years, it is anticipated that additional comparative analysis will be provided.

## Independent Auditors' Report

Commissioners  
Virginia Housing Development Authority:

We have audited the accompanying statement of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2002, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the Authority implemented Governmental Accounting Standards Board Statements No. 34 and 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* effective July 1, 2001. In addition, the Authority adopted Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

The Management's Discussion and Analysis on page 1 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 – 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2002 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 13, 2002

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statement of Net Assets

June 30, 2002

<b>Assets</b>	
Current assets:	
Cash and cash equivalents (note 5)	\$ 814,161,221
Investments (note 5)	505,585,335
Interest receivable – investments	3,143,022
Mortgage and other loans receivable (note 4)	86,178,995
Interest receivable – mortgage and other loans	31,003,432
Other real estate owned	3,018,465
Other assets	2,479,280
Total current assets	<u>1,445,569,750</u>
Noncurrent assets:	
Investments (note 5)	561,319,905
Mortgage and other loans receivable (note 4)	5,834,964,185
Less allowance for loan loss	21,987,683
Less net deferred loan fees	39,928,834
Mortgage and other loans receivable – net	<u>5,773,047,668</u>
Investment in rental property – net	17,516,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864 (note 6)	16,084,130
Unamortized bond issuance expenses	5,734,197
Other assets	10,586,629
Total noncurrent assets	<u>6,384,288,774</u>
Total assets	<u>\$ 7,829,858,524</u>
<b>Liabilities and Net Assets</b>	
Current liabilities:	
Notes and bonds payable (note 7)	\$ 441,758,494
Accrued interest payable on notes and bonds	95,325,540
Section 8 contributions payable	5,032,036
Escrows and project reserves (note 8)	31,556,999
Accounts payable (notes 5, 9 and 12)	28,465,827
Total current liabilities	<u>602,138,896</u>
Noncurrent liabilities:	
Bonds payable – net (note 7)	5,621,723,473
Escrows and project reserves (note 8 and 13)	144,978,650
Virginia Housing Partnership Revolving Fund liability (note 13)	86,586,662
Other liabilities (notes 5, 9, 12 and 13)	30,421,060
Total noncurrent liabilities	<u>5,883,709,845</u>
Total liabilities	<u>6,485,848,741</u>
Net Assets (note 11):	
Invested in capital assets, net of related debt	(1,938,122)
Restricted by bond indentures	1,099,302,214
Unrestricted	246,645,691
Total net assets	<u>1,344,009,783</u>
Total liabilities and net assets	<u>\$ 7,829,858,524</u>

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

Operating revenues:	
Interest on mortgage and other loans	\$ 438,702,240
Pass-through grants received	122,156,521
Section 8 fee income earned	1,936,770
Gains and recoveries on sale of other real estate owned	1,648,013
Other	6,305,727
	<hr/>
Total operating revenues	570,749,271
Operating expenses:	
Interest on notes and bonds	336,611,252
Salaries and related employee benefits (note 12)	21,881,744
General operating expenses	15,536,982
Amortization and bond issuance expenses	1,057,177
Pass-through grants disbursed	122,156,521
Section 8 program expenses	3,367,583
External mortgage servicing expenses	4,735,371
Losses and expenses on other real estate owned and provision for loan losses	6,830,937
	<hr/>
Total operating expenses	512,177,567
Operating income	58,571,704
Non-operating revenues:	
Investment income (note 9)	58,011,473
Other	499,941
	<hr/>
Total non-operating revenues	58,511,414
Change in net assets	117,083,118
Total net assets, beginning of year	1,226,926,665
Total net assets, end of year	\$ 1,344,009,783

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statement of Cash Flows

For the year ended June 30, 2002

Cash flows from operating activities:	
Cash payments for mortgage and other loans	\$ (1,089,170,530)
Principal repayments on mortgage and other loans	762,992,034
Interest received on mortgage and other loans	433,871,339
Section 8 contributions and pass-through grants received	125,273,666
Section 8 contributions and pass-through grants disbursed	(139,634,027)
Cash received for Virginia Housing Partnership Fund program	3,064,097
Grants and cash payments made from Virginia Housing Partnership Fund program	(517,105)
Escrow payments received	150,303,459
Escrow payments disbursed	(140,189,883)
Other operating revenues	5,018,195
Cash received from loan origination fees	13,114,740
Cash payments for salaries and related benefits	(23,558,098)
Cash payments general operating expenses	(20,010,094)
Cash payments for mortgage servicing expenses	(3,464,999)
Proceeds from sale of other real estate owned	26,759,761
Net cash provided by operating activities	<u>103,852,555</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of notes and bonds	1,693,151,061
Principal payments on notes and bonds	(1,313,064,227)
Interest payments on notes and bonds	(337,260,711)
Cash payments for bond issuance expenses	(21,132,722)
Redemption premium paid on bond calls	(11,142,195)
Net cash provided by noncapital financing activities	<u>10,551,206</u>
Cash flows from capital and related financing activities:	
Principal payments on building bonds	(800,000)
Interest payments on building bonds	(1,504,300)
Purchases of furniture and fixtures	(1,736,809)
Net cash used in capital and related financing activities	<u>(4,041,109)</u>
Cash flows from investing activities:	
Purchase of investments	(1,144,291,194)
Proceeds from sales or maturities of investments	1,228,711,446
Interest received on investments	49,369,713
Net cash provided by investing activities	<u>133,789,965</u>
Net increase in cash and cash equivalents	244,152,617
Cash and cash equivalents, at beginning of year	<u>570,008,604</u>
Cash and cash equivalents, at end of year	<u><u>\$ 814,161,221</u></u>

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statement of Cash Flows

For the year ended June 30, 2002

Reconciliation of excess of operating income to net cash provided by operating activities:	
Operating income	\$ 58,571,704
Adjustments to reconcile operating income to net cash provided by operating activities:	
Gain on sale of furniture and fixtures	12,978
Depreciation of property, furniture and equipment	2,813,567
Other depreciation and amortization	2,839,460
Interest on notes and bonds	336,611,252
Increase in mortgage and other loans receivable	(288,373,678)
Increase in interest receivable – mortgage and other loans	(1,083,355)
Decrease in other real estate owned	3,109,209
Decrease in other assets	1,337,344
Decrease in accounts payable and other liabilities	(27,831,595)
Decrease in Section 8 contributions payable	(6,416,242)
Increase in escrows and project reserves	10,113,576
Increase in Virginia Housing Partnership Fund liability	2,456,560
Increase in net deferred loan fees	9,691,775
Net cash provided by operating activities	<u>\$ 103,852,555</u>
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	<u>\$ 21,776,908</u>

See accompanying notes to financial statements.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2002

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

#### (a) Organization

The Virginia Housing Development Authority was created under the Virginia Housing Development Authority Act (the Act) enacted by the 1972 Session of the Virginia 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 (the Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other similar types of funds, are combined to form the Enterprise Funds of the Commonwealth. The Authority reports all of its activities as one enterprise fund, in accordance with generally accepted accounting principles.

#### (b) Basis of Accounting

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

#### (c) Accounting Changes

The Authority has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The primary impact of the implementation of these statements on the Authority is the addition of a Management’s Discussion and Analysis as required supplementary information; a change in the classifications of fund equity from fund balance to net assets, which are also required to be further categorized between (1) invested in capital assets, net of related debt, (2) restricted by bond indentures and (3) unrestricted net assets; use of the direct method to present the statement of cash flows; and certain additional note disclosures.

Additionally, during 2002, the Authority determined that it would be more appropriate to reflect all of their activities as one enterprise fund for external reporting purposes.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2002

**(d) 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.

**(e) Investments**

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

**(f) 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 \$2,168,527.

**(g) 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.

**(h) Allowance for Loan Losses**

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was \$4,902,722 for the year ended June 30, 2002.

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

Property, furniture and equipment are capitalized at cost 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.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(j) 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.

**(k) 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 net assets.

**(l) 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.

**(m) 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 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, who have 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.

**(n) 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.

**(o) Pass-through Grants**

As required by Statement No. 24 of the Governmental 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 \$122,156,521 during the year ended June 30, 2002.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(p) 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. Upon receipt of Section 8 funds, a liability is recorded for the Authority's obligation to disburse funds to Section 8 participants.

**(q) 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 under guidelines developed by the Virginia Department of Housing and Community Development. These related balances are presented as assets consisting of cash, investments, mortgage loans and other assets with a corresponding liability in noncurrent liabilities (see note 13). Administration of these balances is consistent with the overall mission of the Authority and thus these balances are included in the Authority's enterprise 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. It 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, 2002, there were no amounts outstanding under the line of credit.

**(r) 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.

**(s) Statement of Net Assets**

The assets presented in the statement of net assets represent the total of similar accounts of the Authority's various groups (see note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups.

**(2) Description of Account Groups**

**(a) General Operating Accounts**

The General Operating Accounts are 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.

**(b) Multi-Family Housing and Rental Housing Bond Groups**

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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(c) 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 Multi-Family Mortgage Purchase Bonds recorded in this group 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.

**(d) Commonwealth Mortgage Bond Group**

The proceeds of Commonwealth Mortgage Bonds are used to purchase or make long-term loans to owner-occupants of single-family dwelling units.

**(3) Non-restricted Assets**

The following assets of the Authority are non-restricted in nature. These assets have been designated for a broad range of housing initiatives.

Current assets:

Cash and cash equivalents	\$ 76,399,117
Investments	8,418,998
Interest receivable – investments	1,319,745
Mortgage and other loans receivable	2,459,631
Interest receivable – mortgage and other loans	1,442,450
Other real estate owned	52,209
Other assets	<u>1,316,086</u>
Total non-restricted current assets	91,408,236

Noncurrent assets:

Investments	244,679,324
Mortgage and other loans receivable – net	115,230,484
Investment in rental property – net	2,886,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864	16,084,130
Unamortized bond issuance expenses	130,272
Other assets	<u>3,437,610</u>
Total non-restricted noncurrent assets	<u>382,448,065</u>
Total non-restricted assets	<u>\$ 473,856,301</u>

All other assets of the Authority are restricted in nature, either by the requirements of the relevant bond indenture or other agreements or resolutions. A portion of these restricted assets are included in the Authority's General Operating Accounts.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(4) 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 rates</u>	<u>Initial loan terms</u>
Multi-Family Housing Bond Group	4.55% to 13.92%	Thirty to forty years
Rental Housing Bond Group	6.43% to 9.52%	Thirty to forty years
Multi-Family Mortgage Purchase Bond Group	7.00%	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% 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, 2002:

Multi-Family Housing and Rental Housing Bond Groups	\$ 164,441,000
Commonwealth Mortgage Bond Group	<u>387,387,000</u>
	<u>\$ 551,828,000</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 \$218.6 million as of June 30, 2002 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 Operating Accounts are expected generally to have yields substantially less than that of U.S. Government or agency-securities of similar maturity and to have terms of approximately thirty years.

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

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. At June 30, 2002, the carrying amount of the Authority's deposits was \$16,353,029 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$21,861,155. The associated bank balance of the Authority's deposits was \$22,245,748. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Cash equivalents include investments with original maturities of three months or less. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. 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, 2002.

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, 2002 were as follows:

	<b>Category</b>		<b>Fair value</b>
	<b>1</b>	<b>2</b>	
Repurchase agreements	\$ 771,113,176	10,857,782	781,970,958
Interest bearing checking	5,995,762	—	5,995,762
Municipal tax-exempt securities	1,600,000	—	1,600,000
Totals	\$ 778,708,938	10,857,782	789,566,720
Add amounts not categorized because securities are not used as evidence of the investments:			
NationsBank treasury portfolio			393,391
Federal Home Loan Bank Note			7,848,081
Total cash equivalents			\$ 797,808,192

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

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, 2002 (all of which were classified Category 1) were as follows:

	<u>Fair value</u>
U.S. Government and agency securities	\$ 86,697,668
Corporate notes	9,730,020
Municipal tax-exempt securities	29,339,343
Asset backed securities	324,398,134
Agency mortgage backed	<u>134,800,075</u>
Totals	584,965,240
Add amounts not categorized because securities are not used as evidence of the investments:	
Lehman Brothers Special Financing Agent	475,000,000
Federal Home Loan Bank Note	<u>6,940,000</u>
Total investments	\$ <u>1,066,905,240</u>
Current investments	\$ 505,585,335
Noncurrent investments	<u>561,319,905</u>
Total investments	\$ <u>1,066,905,240</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.

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

Activity in the property, furniture and equipment accounts for fiscal year 2002 was as follows:

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	17,704,255	1,635,863	(4,493,605)	14,846,513
Motor vehicles	<u>212,047</u>	<u>100,946</u>	<u>—</u>	<u>312,993</u>
	\$ <u>38,967,790</u>	<u>1,736,809</u>	<u>(4,493,605)</u>	<u>36,210,994</u>

Activity in the related accumulated depreciation accounts during fiscal year 2002 was as follows:

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Building	\$ (7,156,008)	(666,838)	—	(7,822,846)
Furniture and equipment	(14,468,979)	(2,129,371)	4,480,627	(12,117,723)
Motor vehicles	<u>(168,937)</u>	<u>(17,358)</u>	<u>—</u>	<u>(186,295)</u>
	\$ <u>(21,793,924)</u>	<u>(2,813,567)</u>	<u>4,480,627</u>	<u>(20,126,864)</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2002 were as follows:

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
<u>General Operating Accounts</u>				
<u>Notes</u>				
Federal Home Loan Bank, floating rate (weighted average rate of 1.92% at June 30, 2002), no fixed maturity	\$ 28,340	6,940	28,340	6,940
<u>VHDA General Purpose Bonds</u>				
1993 Bonds dated June 16, 1993, 5.79% adjustable interest rate, final due date July 1, 2019	26,835	—	800	26,035
Unamortized premium (discount)	(19)			3
	<u>26,816</u>			<u>26,038</u>
Total General Operating Accounts	<u>55,156</u>			<u>32,978</u>
<u>Multi-Family Housing Bond Group</u>				
1982 Series A, dated June 30, 1982, 10.88% effective interest rate, final due date November 1, 2017	48,155	—	23,045	25,110
1985 Series B, dated December 5, 1985, 6.87% effective interest rate, final due date May 1, 2008	2,840	—	—	2,840
1989 Series C, dated April 1, 1989 and April 27, 1989, 7.84% effective interest rate, final due date May 1, 2021	703	—	600	103
1989 Series D, dated September 15, 1989 and October 11, 1989, 7.37% effective interest rate, final due date November 1, 2014	3,968	—	3,527	441
1990 Series A, dated December 1, 1989, 7.45% effective interest rate, final due date May 1, 2010	735	—	205	530
1991 Series A, dated January 15, 1991, 9.60% effective interest rate, final due date May 1, 2011	1,035	—	1,035	—
1991 Series B/C, dated April 15, 1991, 6.90% effective interest rate, final due date May 1, 2014	1,550	—	180	1,370

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
1991 Series F, dated August 15, 1991, 7.05% effective interest rate, final due date May 1, 2013	\$ 26,610	—	3,090	23,520
1992 Series A, dated January 15, 1992, 7.98% effective interest rate, final due date May 1, 2013	3,160	—	160	3,000
1992 Series B, dated March 1, 1992, 7.86% effective interest rate, final due date May 1, 2008	1,960	—	220	1,740
1992 Series C/D, dated March 15, 1992, 6.88% effective interest rate, final due date May 1, 2018	64,360	—	7,195	57,165
1992 Series E, dated June 9, 1992, 6.68% effective interest rate, final due date May 1, 2015	4,160	—	170	3,990
1992 Series F/G, dated October 1, 1992 and October 14, 1992, 6.26% effective interest rate, final due date November 1, 2022	15,045	—	430	14,615
1992 Series H, dated October 14, 1992, 7.86% effective interest rate, final due date May 1, 2018	15,800	—	685	15,115
1993 Series A, dated February 10, 1993, 7.79% effective interest rate, final due date November 1, 2015	13,860	—	510	13,350
1993 Series B, dated April 1, 1993, 6.42% effective interest rate, final due date May 1, 2016	6,520	—	2,655	3,865
1993 Series C/D/E/F, dated April 1, 1993, May 1, 1993 and June 1, 1993, 5.64% effective interest rate, final due date November 1, 2017	130,000	—	4,555	125,445
1993 Series G, dated August 1, 1993, 7.00% effective interest rate, final due date November 1, 2015	5,565	—	230	5,335
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	6,840	—	445	6,395

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1994 Series A, dated March 1, 1994, 6.94% effective interest rate, final due date November 1, 2015	\$ 15,380	—	660	14,720
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	25,210	—	1,900	23,310
1994 Series D, dated April 1, 1994, 7.78% effective interest rate, final due date May 1, 2015	23,850	—	2,400	21,450
1994 Series F/G, dated June 1, 1994, 6.34% effective interest rate, final due date May 1, 2015	11,660	—	590	11,070
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	8,715	—	370	8,345
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	19,255	—	1,380	17,875
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	11,165	—	415	10,750
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	4,100	—	215	3,885
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	14,085	—	630	13,455
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	52,505	—	2,460	50,045
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	6,700	—	300	6,400
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	24,885	—	1,135	23,750

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	\$ 54,440	—	2,385	52,055
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	29,205	—	1,230	27,975
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	5,095	—	200	4,895
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	30,400	—	1,385	29,015
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	19,000	—	755	18,245
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	16,720	—	580	16,140
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	21,990	—	785	21,205
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	47,570	—	1,605	45,965
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	52,140	—	1,515	50,625
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	7,270	—	280	6,990
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	54,040	—	1,825	52,215
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	49,975	—	1,460	48,515

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018	\$ 55,265	—	2,020	53,245
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	31,790	—	1,000	30,790
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	47,615	—	1,800	45,815
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	35,655	—	1,125	34,530
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	35,065	—	1,215	33,850
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	76,080	—	2,565	73,515
	<u>1,239,691</u>	<u>—</u>	<u>85,122</u>	<u>1,154,569</u>
Compound interest payable	<u>2,845</u>			<u>671</u>
	1,242,536			1,155,240
Unamortized discount	<u>(35,273)</u>			<u>(15,637)</u>
Total Multi-Family Housing Bonds	<u>1,207,263</u>			<u>1,139,603</u>
<u>Rental Housing Bond Group</u>				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	48,125	—	1,305	46,820
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	56,515	—	1,270	55,245
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	37,810	—	755	37,055
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	36,910	—	795	36,115

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	\$ 63,240	—	—	63,240
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	17,455	—	190	17,265
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	46,930	—	640	46,290
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	65,105	—	145	64,960
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	63,120	—	240	62,880
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	14,850	—	85	14,765
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	21,830	—	180	21,650
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	—	50,230	—	50,230
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	—	64,775	—	64,775
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	—	43,165	—	43,165
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	—	37,595	—	37,595
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	—	24,605	—	24,605

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	\$ —	44,950	—	44,950
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	—	63,385	—	63,385
	471,890	328,705	5,605	794,990
Unamortized discount	(2,161)			(3,981)
Total Rental Housing Bonds	469,729			791,009
<u>Other Multi-Family Lending Programs</u>				
<u>Multi-Family Mortgage Purchase Bonds</u>				
1973 Series A, dated December 1, 1973, 5.73% effective interest rate, final due date June 1, 2014	26,860	—	—	26,860
Unamortized premium	34			31
	26,894			26,891
<u>Multi-Family Mortgage Bonds</u>				
1977 Series A, dated April 10, 1977, 6.43% effective interest rate, final due date November 1, 2018	19,675	—	660	19,015
1977 Series B, dated November 1, 1977, 6.40% effective interest rate, final due date November 1, 2020	32,005	—	870	31,135
1978 Series A, dated April 1, 1978, 6.20% effective interest rate, final due date November 1, 2020	32,515	—	810	31,705
1978 Series B, dated October 1, 1978, 6.71% effective interest rate, final due date November 1, 2021	39,930	—	645	39,285
	124,125	—	2,985	121,140
Unamortized discount	(305)			(278)
	123,820			120,862
Total Other Multi-Family Lending Programs	150,714			147,753

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
<u>Commonwealth Mortgage Bonds</u>				
1986 Series A, dated July 29, 1986, 7.65% effective interest rate, final due date January 1, 2013	\$ 1,000	—	1,000	—
1986 Series B/C/D, dated November 3, 1986, 6.92% effective interest rate, final due date July 1, 2013	1,000	—	1,000	—
1987 Series A, dated July 15, 1987 and July 30, 1987, 8.37% effective interest rate, final due date July 1, 2017	1,040	—	1,040	—
1987 Series B/C, dated November 1, 1987 and December 4, 1987, 8.32% effective interest rate, final due date January 1, 2028	1,000	—	1,000	—
1988 Series A/B, dated July 21, 1988, 7.87% effective interest rate, final due date July 1, 2038	1,000	—	1,000	—
1988 Series C/D, dated December 14, 1988, 7.66% effective interest rate, final due date January 1, 2038	1,000	—	1,000	—
1992 Series A/B/C, dated March 15, 1992, April 28, 1992 and June 15, 1992, 6.28% effective interest rate, final due date January 1, 2033	592,310	—	592,310	—
1993 Series A/B, dated February 25, 1993, 5.67% effective interest rate, final due date July 1, 2022	10,825	—	3,810	7,015
1993 Series E/F, dated August 31, 1993, 5.94% effective interest rate, final due date July 1, 2022	4,200	—	1,550	2,650
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	71,120	—	—	71,120
1993 Series I/J, dated November 5, 1993, 5.91% effective interest rate, final due date July 1, 2020	4,325	—	2,675	1,650

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1994 Series C/D, dated April 5, 1994, 5.81% effective interest rate, final due date January 1, 2024	\$ 11,910	—	4,095	7,815
1994 Series G/H, dated August 9, 1994, 6.57% effective interest rate, final due date July 1, 2022	69,800	—	26,125	43,675
1994 Series I/J, dated November 8, 1994, 6.59% effective interest rate, final due date July 1, 2022	48,500	—	24,630	23,870
1995 Series A/B, dated February 14, 1995, February 28, 1995, March 14, 1995 and March 28, 1995, 6.68% effective interest rate, final due date July 1, 2028	92,150	—	81,810	10,340
1995 Series C/D, dated June 22, 1995, 6.01% effective interest rate, final due date January 1, 2030	295,675	—	31,820	263,855
1996 Series A, dated May 23, 1996, 8.00% effective interest rate, final due date July 1, 2029	4,990	—	3,050	1,940
1996 Series B/C, dated June 20, 1996, 6.08% effective interest rate, final due date July 1, 2026	183,990	—	50,520	133,470
1996 Series D, dated October 1, 1996, 7.58% effective interest rate, final due date January 1, 2016	30,100	—	22,600	7,500
1996 Series E/F, dated December 18, 1996, 5.21% adjustable interest rate, final due date January 1, 2046	140,000	—	—	140,000
1996 Series G/H, dated December 19, 1996, 5.00% effective interest rate, final due date January 1, 2022	69,705	—	10,150	59,555
1997 Series A, dated June 12, 1997, 7.28% effective interest rate, final due date January 1, 2046	174,490	—	72,370	102,120
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	92,775	—	10,360	82,415

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
1998 Series A/B/C, dated January 15, 1998, 5.23% adjustable interest rate, final due date January 1, 2047	\$ 498,160	—	1,780	496,380
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	183,825	—	19,720	164,105
1998 Series F, dated October 27, 1998, 6.39% effective interest rate, final due date April 1, 2020	311,435	—	24,010	287,425
1999 Series A/B, dated June 29, 1999, 7.38% effective interest rate, final due date October 1, 2020	221,975	—	99,520	122,455
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	235,245	—	15,195	220,050
2000 Series C, dated March 31, 2000, 7.59% effective interest rate, final due date July 1, 2021	2,500	—	50	2,450
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	173,134	—	49,257	123,877
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	103,043	—	7,653	95,390
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	179,740	—	29,500	150,240
2001 Series E, dated August 30, 2001, 5.88% effective interest rate, final due date July 1, 2023	—	5,000	—	5,000
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	—	118,034	5,883	112,151
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	—	124,551	2,687	121,864

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
2001 Series H, dated October 18, 2001, 5.36% effective interest rate, final due date July 1, 2036	\$ —	223,000	—	223,000
2001 Series I/J, dated October 18, 2001, 5.09% effective interest rate, final due date July 1, 2023	—	443,600	—	443,600
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	—	101,840	770	101,070
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	—	206,853	6,831	200,022
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	—	114,627	—	114,627
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	—	20,000	—	20,000
	<u>3,811,962</u>	<u>1,357,505</u>	<u>1,206,771</u>	<u>3,962,696</u>
Unamortized premium (discount)	<u>15,464</u>			<u>(10,557)</u>
Total Commonwealth Mortgage Bonds	<u>3,827,426</u>			<u>3,952,139</u>
Total	<u>\$ 5,710,288</u>			<u>6,063,482</u>
Notes and bonds payable – current			\$ 441,759	
Bonds payable – noncurrent			<u>5,621,723</u>	
Totals			<u>\$ 6,063,482</u>	

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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

The Multi-Family Mortgage Purchase Bonds are special obligations of the Authority; all other bonds issued to date are general obligation bonds. The 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 these groups 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 and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premiums and including special and optional redemptions that occurred subsequent to year end) commencing July 1, 2002 and thereafter are as follows:

<u>Period ending June 30,</u>	<u>Original Principal</u>	<u>Current Interest</u>	<u>Compound Interest/ Zero Coupon Accretion</u>	<u>Total Debt Service</u>
2003	\$ 228,828,494	\$ 331,733,381	\$ 4,317,131	\$ 564,879,006
2004	264,792,999	317,640,138	—	582,433,137
2005	281,545,087	302,780,641	—	584,325,728
2006	291,715,900	286,264,742	—	577,980,642
2007	292,447,259	269,341,606	—	561,788,865
2012	1,411,863,827	1,098,683,661	862,249	2,511,409,737
2017	1,311,230,497	685,668,228	—	1,996,898,725
2022	794,770,250	362,041,593	4,004,750	1,160,816,593
2027	364,885,000	184,198,246	—	549,083,246
2032	117,125,000	103,507,938	—	220,632,938
2037	121,195,000	73,807,172	—	195,002,172
2042	55,700,000	56,032,110	—	111,732,110
2047	532,900,000	45,785,728	—	578,685,728
	<u>\$ 6,068,999,313</u>	<u>\$ 4,117,485,184</u>	<u>\$ 9,184,130</u>	<u>\$ 10,195,668,627</u>

**(8) Escrows and Project Reserves**

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (see note 13). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2002, these project reserves amounted to approximately \$142,224,000.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2002

### (9) 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 rebate occurs. These excess earnings are recorded in accounts payable and other liabilities and amounted to \$5,328,582 at June 30, 2002.

### (10) 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, 2002, the Authority experienced a net loss of \$5,680,604 from hedging transactions settled during the year. At June 30, 2002, \$4,628,647 of short sales were outstanding which had an unrealized loss of \$8,938. 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.

### (11) Net Assets

Capital assets, net of related debt, represent property, furniture and equipment, as well as an investment in rental property, less the current outstanding applicable debt.

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

Unrestricted net assets represent those portions of the total net assets set aside to reflect current utilization and tentative plans for future utilization of such net assets. As of June 30, 2002, in addition to the \$218,642,052 designated for the Virginia Housing Fund, the Authority had additional designations in the amount of \$25,901,062 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 unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single family and multi-family loans; self-insurance on the liability exposure of Commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single family loan prepayment shortfalls and other risks and contingencies.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

**(12) 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, 2002 was \$1,295,450.

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, 2002, included in accounts payable and other liabilities is an employee compensated absences accrual of \$2,675,330 (see note 13).

Funding amounts for the postretirement health care benefits offered are approved annually by the Board of Commissioners. Included in accounts payable and other liabilities is a postretirement health care benefit liability of \$3,603,734 as of June 30, 2002 (see note 13). Total expense incurred for these benefits for the year ended June 30, 2002 was \$422,245.

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

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for fiscal year 2002, was as follows:

	<b>Balance at June 30, 2001</b>	<b>Additions</b>	<b>Decreases</b>	<b>Balance at June 30, 2002</b>
Project reserves	\$ 137,481,202	27,837,202	20,339,754	144,978,650
Virginia Housing Partnership Fund liability	84,069,367	3,124,832	607,537	86,586,662
Other liabilities	30,511,898	9,254,492	15,624,394	24,141,996
Compensated absences payable	2,381,562	1,056,920	763,152	2,675,330
Retiree healthcare	3,078,882	590,938	66,086	3,603,734
Total other liabilities	<u>\$ 35,972,342</u>	<u>10,902,350</u>	<u>16,453,632</u>	<u>30,421,060</u>

**(14) Contingencies and Other Matters**

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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2002

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, 2002, 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.

**(15) Subsequent Events**

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2002 and through September 13, 2002, as follows:

<u>Bond Group</u>	<u>Redemption Date</u>		<u>Agregate Principal Amount Redeemed</u>
Multi-Family Housing Bonds	July 1, 2002	\$	4,070,000
Commonwealth Mortgage Bonds	July 1, 2002		103,995,000
Commonwealth Mortgage Bonds	September 1, 2002		104,865,000

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2002

Assets	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Programs	Total
		Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	
Current assets:						
Cash and cash equivalents	\$ 92,567,660	31,893,630	60,002,600	8,256,005	621,441,326	814,161,221
Investments	15,358,998	—	—	—	490,226,337	505,585,335
Interest receivable – investments	1,319,745	983,396	67,366	381,805	390,710	3,143,022
Mortgage and other loans receivable	3,678,153	20,055,373	3,885,020	3,932,046	54,628,403	86,178,995
Interest receivable – mortgage and other loans	1,442,450	8,042,205	4,268,151	738,813	16,511,813	31,003,432
Other real estate owned	52,209	—	—	—	2,966,256	3,018,465
Other assets	1,316,086	—	—	—	1,163,194	2,479,280
Total current assets	<u>115,735,301</u>	<u>60,974,604</u>	<u>68,223,137</u>	<u>13,308,669</u>	<u>1,187,328,039</u>	<u>1,445,569,750</u>
Noncurrent assets:						
Investments	255,134,961	137,324,651	111,159,991	21,778,888	35,921,414	561,319,905
Mortgage and other loans receivable	198,500,838	1,249,689,784	637,820,682	115,445,334	3,633,507,547	5,834,964,185
Less allowance for loan loss	7,817,935	5,227,827	2,326,527	309,303	6,306,091	21,987,683
Less net deferred loan fees	617,820	16,861,792	11,821,092	312,204	10,315,926	39,928,834
Mortgage and other loans receivable – net	<u>190,065,083</u>	<u>1,227,600,165</u>	<u>623,673,063</u>	<u>114,823,827</u>	<u>3,616,885,530</u>	<u>5,773,047,668</u>
Investment in rental property – net	2,886,245	14,630,000	—	—	—	17,516,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864	16,084,130	—	—	—	—	16,084,130
Unamortized bond issuance expenses	130,272	2,462,437	1,142,203	108,308	1,890,977	5,734,197
Interfund receivable	(14,169,748)	5,227,827	2,326,527	309,303	6,306,091	—
Other assets	3,437,610	—	—	—	7,149,019	10,586,629
Total noncurrent assets	<u>453,568,553</u>	<u>1,387,245,080</u>	<u>738,301,784</u>	<u>137,020,326</u>	<u>3,668,153,031</u>	<u>6,384,288,774</u>
Total assets	<u>\$ 569,303,854</u>	<u>1,448,219,684</u>	<u>806,524,921</u>	<u>150,328,995</u>	<u>4,855,481,070</u>	<u>7,829,858,524</u>

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Net Assets

June 30, 2002

Liabilities and Net Assets	Multi-Family Lending Programs			Single Family Lending Programs	Total	
	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs		Commonwealth Mortgage Bond Group
Current liabilities:						
Notes and bonds payable	\$ 7,940,000	57,523,600	11,095,000	3,505,000	361,694,894	441,758,494
Accrued interest payable on notes and bonds	750,520	11,747,939	13,948,619	1,427,561	67,450,901	95,325,540
Section 8 contributions payable	5,032,036	—	—	—	—	5,032,036
Escrows and project reserves	31,556,999	—	—	—	—	31,556,999
Accounts payable and other liabilities	8,912,037	1,393,716	—	—	18,160,074	28,465,827
Total current liabilities	54,191,592	70,665,255	25,043,619	4,932,561	447,305,869	602,138,896
Noncurrent liabilities:						
Bonds payable – net	25,037,627	1,082,079,327	779,913,813	144,248,309	3,590,444,397	5,621,723,473
Escrows and project reserves	144,978,650	—	—	—	—	144,978,650
Virginia Housing Partnership Revolving Fund liability	86,586,662	—	—	—	—	86,586,662
Other liabilities	13,966,209	6,912,611	834,496	—	8,707,744	30,421,060
Total noncurrent liabilities	270,569,148	1,088,991,938	780,748,309	144,248,309	3,599,152,141	5,883,709,845
Total liabilities	324,760,740	1,159,657,193	805,791,928	149,180,870	4,046,458,010	6,485,848,741
Net Assets:						
Invested in capital assets, net of related debt	(4,583,601)	2,645,479	—	—	—	(1,938,122)
Restricted by bond indentures	2,481,024	285,917,012	732,993	1,148,125	809,023,060	1,099,302,214
Unrestricted	246,645,691	—	—	—	—	246,645,691
Total net assets	244,543,114	288,562,491	732,993	1,148,125	809,023,060	1,344,009,783
Total liabilities and net assets	\$ 569,303,854	1,448,219,684	806,524,921	150,328,995	4,855,481,070	7,829,858,524

See accompanying auditors' report.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Programs	Total
		Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	
Operating revenues:						
Interest on mortgage and other loans	\$ 6,134,824	105,972,579	39,990,163	9,436,792	277,167,882	438,702,240
Pass-through grants received	122,156,521	—	—	—	—	122,156,521
Section 8 fee income earned	1,936,770	—	—	—	—	1,936,770
Gains and recoveries on sale of other real estate owned	6,229	—	—	—	1,641,784	1,648,013
Other	4,495,263	1,810,464	—	—	—	6,305,727
Total operating revenues	134,729,607	107,783,043	39,990,163	9,436,792	278,809,666	570,749,271
Operating expenses:						
Interest on notes and bonds	1,840,536	74,277,947	40,742,062	9,441,480	210,309,227	336,611,252
Salaries and related employee benefits	21,881,744	—	—	—	—	21,881,744
General operating expenses	15,074,982	462,000	—	—	—	15,536,982
Amortization and bond issuance expenses	7,663	236,084	44,628	5,897	762,905	1,057,177
Pass-through grants disbursed	122,156,521	—	—	—	—	122,156,521
Section 8 program expenses	3,367,583	—	—	—	—	3,367,583
External mortgage servicing expenses	26,242	—	—	15,238	4,693,891	4,735,371
Losses and expenses on other real estate owned and provision for loan losses	4,923,156	—	—	—	1,907,781	6,830,937
Total operating expenses	169,278,427	74,976,031	40,786,690	9,462,615	217,673,804	512,177,567
Operating income (expense)	(34,548,820)	32,807,012	(796,527)	(25,823)	61,135,862	58,571,704
Non-operating revenues:						
Investment income	7,241,249	14,830,644	3,936,161	1,886,240	30,117,179	58,011,473
Other, net	499,941	—	—	—	—	499,941
Total non-operating revenues	7,741,190	14,830,644	3,936,161	1,886,240	30,117,179	58,511,414
Income (loss) before transfers	(26,807,630)	47,637,656	3,139,634	1,860,417	91,253,041	117,083,118
Transfers between funds	41,478,223	(23,677,959)	(1,606,886)	(2,462,611)	(13,730,767)	—
Change in net assets	14,670,593	23,959,697	1,532,748	(602,194)	77,522,274	117,083,118
Total net assets, beginning of year	229,872,521	264,602,794	(799,755)	1,750,319	731,500,786	1,226,926,665
Total net assets, end of year	\$ 244,543,114	288,562,491	732,993	1,148,125	809,023,060	1,344,009,783

See accompanying auditors' report.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Cash Flows

Year ended June 30, 2002

	General Operating Accounts	Multi-Family Lending Programs		Other	Single Family Lending Programs	Total
		Multi-Family Housing and Bond Group	Rental Housing Bond Group	Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	
Cash flows from operating activities:						
Cash payments for mortgage and other loans	\$ (46,067,427)	(829,324)	(315,169,811)	—	(727,103,968)	(1,089,170,530)
Principal repayments on mortgage and other loans	23,175,392	36,663,004	5,626,197	4,845,544	692,681,897	762,992,034
Interest received on mortgage and other loans	5,873,197	106,523,578	37,606,191	9,355,717	274,512,656	433,871,339
Section 8 contributions and pass-through grants received	125,273,666	—	—	—	—	125,273,666
Section 8 contributions and pass-through grants disbursed	(139,634,027)	—	—	—	—	(139,634,027)
Cash received for Virginia Housing Partnership Fund program	3,064,097	—	—	—	—	3,064,097
Grants and cash payments made from Virginia Housing Partnership Fund program	(517,105)	—	—	—	—	(517,105)
Escrow payments received	150,303,459	—	—	—	—	150,303,459
Escrow payments disbursed	(140,189,883)	—	—	—	—	(140,189,883)
Other operating revenues	3,194,843	1,823,352	—	—	—	5,018,195
Cash received from loan origination fees	5,027,896	—	—	—	8,086,844	13,114,740
Cash payments for salaries and related benefits	(23,558,098)	—	—	—	—	(23,558,098)
Cash payments general operating expenses	(20,010,094)	—	—	—	—	(20,010,094)
Cash payments for mortgage servicing expenses	(20,286)	—	—	(15,237)	(3,429,476)	(3,464,999)
Proceeds from sale of other real estate owned	266,742	—	—	—	26,493,019	26,759,761
Net cash provided by (used in) operating activities	(53,817,628)	144,180,610	(271,937,423)	14,186,024	271,240,972	103,852,555
Cash flows from noncapital financing activities:						
Proceeds from sale of notes and bonds	6,940,000	—	328,705,000	—	1,357,506,061	1,693,151,061
Principal payments on notes and bonds	(28,340,000)	(69,362,563)	(5,605,000)	(2,985,000)	(1,206,771,664)	(1,313,064,227)
Interest payments on notes and bonds	(424,801)	(73,339,959)	(34,843,270)	(9,432,556)	(219,220,125)	(337,260,711)
Cash payments for bond issuance expenses	(9,739,179)	—	—	—	(11,393,543)	(21,132,722)
Redemption premium paid on bond calls	—	(70,595)	—	—	(11,071,600)	(11,142,195)
Transfers (to) from other funds	51,384,992	(19,195,602)	289,137	(2,478,527)	(30,000,000)	—
Net cash provided by (used in) noncapital financing activities	19,821,012	(161,968,719)	288,545,867	(14,896,083)	(120,950,871)	10,551,206
Cash flows from capital and related financing activities:						
Principal payments on building bonds	(800,000)	—	—	—	—	(800,000)
Interest payments on building bonds	(1,504,300)	—	—	—	—	(1,504,300)
Purchases of furniture and fixtures	(1,736,809)	—	—	—	—	(1,736,809)
Net cash used in capital and related financing activities	(4,041,109)	—	—	—	—	(4,041,109)

(Continued)

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Cash Flows

Year ended June 30, 2002

	Multi-Family Lending Programs			Single Family Lending Programs	Total
	General Operating Accounts	Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs Commonwealth Mortgage Bond Group	
Cash flows from investing activities:					
Purchases of investments	\$ (470,286,499)	(44,786,391)	(161,951,737)	(23,251,565)	(1,144,291,194)
Proceeds from sales or maturities of investments	495,732,048	47,981,036	147,193,526	24,284,470	1,228,711,446
Interest received on investments	7,283,298	9,922,926	4,708,742	1,590,787	49,369,713
Net cash provided by (used in) investing activities	32,728,847	13,117,571	(10,049,469)	2,623,692	133,789,965
Net increase (decrease) in cash and cash equivalents	(5,308,878)	(4,670,538)	6,558,975	1,913,633	244,152,617
Cash and cash equivalents, at beginning of year	97,876,538	36,564,168	53,443,625	6,342,372	570,008,604
Cash and cash equivalents, at end of year	\$ 92,567,660	31,893,630	60,002,600	8,256,005	814,161,221
Reconciliation of operating income (expense) to net cash provided by (used in) operating activities:					
Operating income (expense)	\$ (34,548,820)	32,807,012	(796,527)	(25,823)	58,571,704
Adjustments to reconcile operating income (expense) to net cash provided by (used in) operating activities:					
Loss on sale of furniture and fixtures	12,978	—	—	—	12,978
Depreciation of property, furniture and equipment	2,813,567	—	—	—	2,813,567
Other depreciation and amortization	176,888	698,082	44,628	(107,219)	2,839,460
Interest on notes and bonds	1,840,536	74,277,947	40,742,062	9,441,480	336,611,252
(Increase) decrease in mortgage and other loans receivable	(22,719,336)	35,708,980	(309,543,614)	4,845,544	(288,373,678)
(Increase) decrease in interest receivable – mortgage and other loans	(151,079)	581,360	(2,225,629)	32,042	(1,083,355)
Decrease in other real estate owned	186,441	—	—	—	3,109,209
(Increase) decrease in other assets	(672,134)	—	—	—	2,009,478
Increase (decrease) in accounts payable and other liabilities	(11,827,929)	12,888	—	—	(16,016,554)
Increase (decrease) in Section 8 contributions payable	(6,416,242)	—	—	—	(6,416,242)
Increase in escrows and project reserves	10,113,576	—	—	—	10,113,576
Increase in Virginia Housing Partnership Fund liability	2,456,560	—	—	—	2,456,560
Increase (decrease) in net deferred loan fees	4,917,366	94,341	(158,343)	—	4,838,411
Net cash provided by (used in) operating activities	\$ (53,817,628)	144,180,610	(271,937,423)	14,186,024	271,240,972
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	\$ 115,835	—	—	—	21,661,073
					21,776,908

See accompanying auditors' report.

**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, 2002, and have issued our report thereon dated September 13, 2002. Our report noted that the Authority implemented Governmental Accounting Standards Board Statements No. 34 and 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 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 13, 2002.

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 13, 2002