

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

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 years that ended June 30, 2004 and 2003. Please read it in conjunction with the Authority's financial statements, which follow this section. The annual financial report consists of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes, and the supplementary information.

INTRODUCTION – THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY

The Virginia Housing Development Authority (the Authority) is a political subdivision of the Commonwealth of Virginia. The Authority is entirely self-supporting and does not draw upon the general taxing authority of the Commonwealth. It sells tax-exempt and taxable notes and bonds, primarily to finance the making of (a) single family mortgage loans to lower and moderate income persons and (b) multi-family mortgage loans for developments to be occupied by lower and moderate income persons. The Authority's net assets are also a source of funding for such loans. Interest rates on Authority loans are generally below market rate.

The principal determinates of the Authority's net revenues (Change in net assets) are (a) the interest received on mortgage loans and investments less, (b) interest on notes and bonds, and (c) operating expenses.

The Authority administers the Housing Choice Voucher program, which provides rental subsidies from federal funds, on a fee basis. In addition to its regular programs, the Authority's Virginia Housing Fund programs offer lower rate and higher risk loans, principally for the elderly, disabled, homeless, and other low income persons. The authority conducts numerous other programs related to its lending activities.

FINANCIAL STATEMENTS

The *Statements of Net Assets* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long term, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgages and loans, externally funded programs and other revenue sources. This statement also helps answer the question "Is the Authority as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statements of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. It provides answers to such questions as "Where did the cash come from?"; "What was the cash used for?"; and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

FINANCIAL HIGHLIGHTS

Fiscal Year 2004

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2004 and 2003.

- Total assets decreased \$379.90 million (or 5.77%)
- Total liabilities decreased \$479.96 million (or 9.33%)
- Total net assets increased \$100.06 million (or 6.94%)
- Investments increased \$118.07 million (or 16.97%)
- Investment income decreased \$22.27 million (or 71.24%)
- Mortgage and other loans receivable-net decreased \$267.83 million (or 5.15%)
- Interest on mortgage and other loans receivable decreased \$48.43 million (or 11.52%)
- Notes and bonds payable decreased \$407.72 million (or 8.57%)
- Interest on notes and bonds payable decreased \$61.60 million (or 20.10%)

Primary factors that contributed to these changes were as follows:

- Total assets decreased for the second straight year; however, the decline was considerably less than fiscal year 2003, with a decrease of approximately 5.77%. The beginning of fiscal year 2004 continued the trend of fiscal year 2003 with unusually high levels of single family loan repayments, as interest rates remained low. Though the multi-family loan portfolios grew, the overall mortgage loan balance declined. During the second half of the fiscal year that trend began to slow and the total mortgage loan portfolio began increasing again, finishing the year with a small decline over fiscal year 2003 of approximately 5.15%.
- Total liabilities decreased as such excess loan repayments required the redemption of associated bonds. Such decline was approximately 9.33%.
- Total net assets increased \$100.06 million or approximately 6.94%, despite slight decreases over fiscal year 2003 in both interest on mortgage loans and investment income. Such increase was due principally to debt refinancings, which lowered the Authority's interest expense and continued emphasis on reducing operating expenses.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

Fiscal Year 2003

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2003 and June 30, 2002.

- Total assets decreased \$1.245 billion (or 15.90%)
- Total liabilities decreased \$1.344 billion (or 20.72%)
- Total net assets increased \$98.81 million (or 7.35%)
- Investments decreased \$371.09 million (or 34.78%)
- Investment income decreased \$26.76 million (or 46.12%)
- Mortgage and other loans receivable-net decreased \$654.57 million (or 11.17%)
- Interest on mortgage and other loans receivable decreased \$18.20 million (or 4.15%)
- Notes and bonds payable decreased \$1.304 billion (or 21.51%)
- Interest on notes and bonds payable decreased \$30.19 million (or 8.97%)

Primary factors that contributed to these changes were as follows:

- Total assets decreased by approximately 15.90%, primarily due to a net decline in mortgage and other loans receivable. While the multi-family and other loan portfolios grew by approximately 8.9%, falling interest rates and associated single family loan repayments resulted in a net decrease of approximately 22.7% in the primary single family lending programs.
- Total liabilities were reduced by approximately 20.72%, principally due to bond redemptions associated with the high levels of loan repayments.
- The reduction in notes and bonds outstanding, coupled with lower interest rates on new and refinanced debt, served to reduce debt interest expense.
- While the smaller mortgage portfolios produced lower mortgage interest income for the year, and lower interest rates contributed to reduced investment income, lower debt costs and emphasis on operating expense management resulted in an increase in total net assets of \$98.81 million.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

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:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>2004 vs. 2003 % Increase (decrease)</u>	<u>2003 vs. 2002 % Increase (decrease)</u>
Cash and cash equivalents	\$ 374,519,341	603,070,533	814,161,221	(37.90)%	(25.93)%
Investments	813,887,094	695,815,220	1,066,905,240	16.97%	(34.78)%
Mortgage and other loans receivable – net	4,936,832,143	5,204,660,158	5,859,226,663	(5.15)%	(11.17)%
Other assets	<u>79,761,154</u>	<u>81,358,381</u>	<u>89,565,400</u>	<u>(1.96)%</u>	<u>(9.16)%</u>
Total assets	<u>6,204,999,732</u>	<u>6,584,904,292</u>	<u>7,829,858,524</u>	<u>(5.77)%</u>	<u>(15.90)%</u>
Notes and bonds payable	4,351,467,612	4,759,188,310	6,063,481,967	(8.57)%	(21.51)%
Other liabilities	<u>310,656,659</u>	<u>382,900,853</u>	<u>422,366,774</u>	<u>(18.87)%</u>	<u>(9.34)%</u>
Total liabilities	<u>4,662,124,271</u>	<u>5,142,089,163</u>	<u>6,485,848,741</u>	<u>(9.33)%</u>	<u>(20.72)%</u>
Net assets	<u>\$ 1,542,875,461</u>	<u>1,442,815,129</u>	<u>1,344,009,783</u>	<u>6.94%</u>	<u>7.35%</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 Virginia Housing Fund.

Net Assets as of June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Invested in capital assets, net of related debt	\$ (9,599,720)	(1,722,009)
Restricted by bond indentures	1,307,882,678	1,172,959,128
Unrestricted	<u>244,592,503</u>	<u>271,578,010</u>
Total net assets	<u>\$ 1,542,875,461</u>	<u>1,442,815,129</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

Results of Operations for the Years Ended June 30, 2004 and 2003. Though investment rates remained low and single family repayments continued to exceed expectations, the Authority had a strong year in 2004. By refinancing debt to reduce bond interest expense and further reducing other operating expenses, net assets grew by \$100.06 million, an increase of approximately 6.94% over 2003. The following table summarizes the key sources of revenues and expenses for the years ended June 30, 2004 and 2003 (in millions):

	2004	2003
Operating revenues:		
Interest on mortgage and other loans receivable	\$ 372.1	420.5
Pass-through grants received	120.3	111.1
Other operating revenues	15.7	12.5
Total operating revenues	508.1	544.1
Operating expenses:		
Interest on notes and bonds payable	244.8	306.4
Pass-through grants disbursed	120.3	114.0
Other operating expenses	52.0	56.6
Total operating expenses	417.1	477.0
Net operating income	91.0	67.1
Nonoperating revenues:		
Investment income *	9.0	31.3
Other nonoperating revenue	0.1	0.4
Total nonoperating revenue	9.1	31.7
Change in net assets	\$ 100.1	98.8

* Investment income includes fair market value adjustments totaling (\$8.8) million and \$1.9 million for the years ended June 30, 2004 and 2003, respectively.

Long-Term Debt. As of June 30, 2004 and 2003, the Authority had net outstanding notes and bonds payable totaling \$4.35 billion and \$4.76 billion, respectively, and has maintained its strong long-term bond and general obligation ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services. During fiscal year 2004, Moody's increased its rating on the Authority's Commonwealth Mortgage Bonds from Aa1 to Aaa. Standard & Poor's increased its rating on the Commonwealth Mortgage Bonds to AAA in July 2004. The Commonwealth Mortgage Bonds represented outstanding bonds in the amount of approximately \$1.71 billion on June 30, 2004. The Authority's short-term ratings are P-1 by Moody's and A-1+ by Standard & Poor's.

Substantially all of the Authority's debt is fixed rate with terms related to the mortgage loans into which the proceeds are placed and substantially all of the Authority's debt is callable from repayments of the underlying mortgage loans.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2004 and 2003

ECONOMIC FACTORS

The Authority's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate available on the Authority's loans and those available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Interest rates in the United States during fiscal year 2003 dropped to historically low levels and remained at historical low levels throughout fiscal year 2004. If interest rates continue at current levels, the Authority expects mortgage and investment income to be stable or decrease slightly. If interest rates rise, mortgage, and investment income should increase as new loans are originated and new investments are purchased at higher rates. If interest rates fall further, mortgage, and investment income will continue to decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates could also cause another increase in prepayments on higher rate mortgage loans.

ADDITIONAL INFORMATION

If you have questions about this report or need additional information, please visit the Authority's web site, www.vhda.com, or contact Susan F. Dewey, Executive Director.



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Independent Auditors' Report

Commissioners
Virginia Housing Development Authority:

We have audited the accompanying statements of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2004 and 2003, and the respective changes in financial position and its cash flows for the years 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 24, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 through 4 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 audits 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.

KPMG LLP

September 24, 2004

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Net Assets

June 30, 2004 and 2003

Assets	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents (note 5)	\$ 374,519,341	603,070,533
Investments (note 5)	301,672,646	162,974,448
Interest receivable – investments	2,109,429	2,613,315
Mortgage and other loans receivable (note 4)	88,626,370	87,829,920
Interest receivable – mortgage and other loans	25,994,885	28,334,439
Other real estate owned	2,368,724	1,826,962
Housing Choice Voucher contributions receivable	1,079,267	—
Other assets	3,171,532	2,606,968
Total current assets	<u>799,542,194</u>	<u>889,256,585</u>
Noncurrent assets:		
Investments (note 5)	512,214,448	532,840,772
Mortgage and other loans receivable (note 4)	4,934,825,798	5,194,438,887
Less allowance for loan loss	32,569,790	29,257,513
Less net deferred loan fees	54,050,235	48,351,136
Mortgage and other loans receivable, net	<u>4,848,205,773</u>	<u>5,116,830,238</u>
Investment in rental property, net	20,462,633	16,897,508
Property, furniture, and equipment, less accumulated depreciation and amortization of \$22,895,119 and \$21,566,269 (note 6)	13,146,365	14,209,708
Unamortized bond issuance expenses	5,791,289	6,220,444
Other assets	5,637,030	8,649,037
Total noncurrent assets	<u>5,405,457,538</u>	<u>5,695,647,707</u>
Total assets	<u>\$ 6,204,999,732</u>	<u>6,584,904,292</u>
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 406,433,453	445,193,661
Accrued interest payable on notes and bonds	63,256,461	76,360,051
Housing Choice Voucher contributions payable	—	5,882,555
Escrows and project reserves (note 8)	31,308,705	26,869,102
Accounts payable (notes 5, 9, and 12)	28,105,012	82,483,689
Total current liabilities	<u>529,103,631</u>	<u>636,789,058</u>
Noncurrent liabilities:		
Bonds payable, net (note 7)	3,945,034,159	4,313,994,649
Escrows and project reserves (notes 8 and 13)	151,249,096	145,728,513
Other liabilities (notes 5, 9, 12, and 13)	36,737,385	45,576,943
Total noncurrent liabilities	<u>4,133,020,640</u>	<u>4,505,300,105</u>
Total liabilities	<u>4,662,124,271</u>	<u>5,142,089,163</u>
Net assets (note 11):		
Invested in capital assets, net of related debt	(9,599,720)	(1,722,009)
Restricted by bond indentures	1,307,882,678	1,172,959,128
Unrestricted	244,592,503	271,578,010
Total net assets	<u>1,542,875,461</u>	<u>1,442,815,129</u>
Total liabilities and net assets	<u>\$ 6,204,999,732</u>	<u>6,584,904,292</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Interest on mortgage and other loans	\$ 372,077,409	420,504,229
Pass-through grants received	120,332,874	111,081,971
Housing Choice Voucher fee income earned	6,490,654	4,604,787
Gains and recoveries on sale of other real estate owned	442,808	1,005,160
Other	8,743,549	6,901,957
Total operating revenues	<u>508,087,294</u>	<u>544,098,104</u>
Operating expenses:		
Interest on notes and bonds	244,816,894	306,416,880
Salaries and related employee benefits (note 12)	25,128,206	24,445,932
General operating expenses	12,486,931	13,633,959
Amortization and bond issuance expenses	1,139,616	1,707,595
Pass-through grants disbursed	120,332,874	111,081,971
Housing Choice Voucher program expenses	5,005,872	5,614,216
External mortgage servicing expenses	3,604,106	5,485,065
Losses and expenses on other real estate owned	791,948	1,304,486
Provision for loan losses	3,793,078	7,269,830
Total operating expenses	<u>417,099,525</u>	<u>476,959,934</u>
Operating income	<u>90,987,769</u>	<u>67,138,170</u>
Nonoperating revenues:		
Investment income (note 9)	8,990,280	31,255,429
Other	82,283	411,747
Total nonoperating revenues	<u>9,072,563</u>	<u>31,667,176</u>
Change in net assets	100,060,332	98,805,346
Total net assets, beginning of year	<u>1,442,815,129</u>	<u>1,344,009,783</u>
Total net assets, end of year	<u>\$ 1,542,875,461</u>	<u>1,442,815,129</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (837,891,116)	(709,459,139)
Principal repayments on mortgage and other loans	1,096,996,637	1,294,597,486
Interest received on mortgage and other loans	363,946,599	419,074,194
Housing Choice Voucher contributions and pass-through grants received	125,336,788	123,088,334
Housing Choice Voucher contributions and pass-through grants disbursed	(130,919,830)	(122,803,751)
Cash received for Virginia Housing Partnership Fund program	—	3,140,260
Grants and cash payments made from Virginia Housing Partnership Fund program	—	(41,448,275)
Escrow payments received	157,937,121	155,401,478
Escrow payments disbursed	(146,401,745)	(158,716,189)
Other operating revenues	6,738,318	5,466,967
Cash received from loan origination fees	10,695,851	10,056,234
Cash payments for salaries and related benefits	(23,851,911)	(23,110,448)
Cash payments for general operating expenses	(14,092,953)	(16,939,294)
Cash payments for mortgage servicing expenses	(1,894,887)	(2,704,654)
Proceeds from sale of other real estate owned	5,150,837	16,577,214
Net cash provided by operating activities	<u>611,749,709</u>	<u>952,220,417</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	857,175,255	1,019,629,054
Principal payments on notes and bonds	(1,249,026,188)	(2,322,032,287)
Interest payments on notes and bonds	(243,775,342)	(312,913,824)
Cash payments for bond issuance expenses	(1,473,635)	(11,068,776)
Redemption premium paid on bond calls	(2,561,200)	(3,116,050)
Net cash used in noncapital financing activities	<u>(639,661,110)</u>	<u>(1,629,501,883)</u>
Cash flows from capital and related financing activities:		
Principal payments on building bonds	(25,035,000)	(1,000,000)
Interest payments on building bonds	(1,174,834)	(1,457,050)
Redemption premium paid on bond calls	(480,700)	—
Purchases of property, furniture, and equipment	(781,277)	(503,815)
Net cash used in capital and related financing activities	<u>(27,471,811)</u>	<u>(2,960,865)</u>
Cash flows from investing activities:		
Purchase of investments	(1,282,703,251)	(1,632,703,467)
Proceeds from sales or maturities of investments	1,094,062,312	2,071,923,254
Interest received on investments	15,472,959	29,931,856
Net cash provided by investing activities	<u>(173,167,980)</u>	<u>469,151,643</u>
Net decrease in cash and cash equivalents	<u>(228,551,192)</u>	<u>(211,090,688)</u>
Cash and cash equivalents, at beginning of year	<u>603,070,533</u>	<u>814,161,221</u>
Cash and cash equivalents, at end of year	\$ <u><u>374,519,341</u></u>	<u><u>603,070,533</u></u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 90,987,769	67,138,170
Adjustments to reconcile operating income to net cash provided by operating activities:		
Gain on sale of furniture and fixtures	120	7,255
Depreciation of property, furniture, and equipment	1,844,500	2,387,074
Other depreciation and amortization	1,839,502	5,070,951
Interest on notes and bonds	244,816,894	306,416,880
Investment in rental property	(4,179,297)	—
Decrease in mortgage and other loans receivable	263,098,902	610,029,870
Decrease in interest receivable – mortgage and other loans	2,331,277	2,639,198
(Increase) decrease in other real estate owned	(630,331)	1,062,034
(Increase) decrease in other assets	7,374,079	(556,400)
Increase in accounts payable and other liabilities	(3,697,523)	(6,998,844)
Increase (decrease) in Section 8 contributions payable	(6,961,822)	850,519
Increase (decrease) in escrows and project reserves	11,535,376	(3,314,711)
Decrease in and termination of Virginia Housing Partnership Fund liability	—	(38,343,676)
Increase in net deferred loan fees	3,390,263	5,832,097
Net cash provided by operating activities	\$ 611,749,709	952,220,417
Supplemental disclosure of noncash investing activity:		
Increase in other real estate owned as a result of loan foreclosures	\$ 9,962,915	15,463,950

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act (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) *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.

(d) *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.

(e) *Investment in Rental Property*

Investment in rental property represents three multi-family apartment complexes as of June 30, 2003, and five properties as of June 30, 2004, including property, furniture, and equipment. These assets

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are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, which are 30 years for the building and 5 years for furniture and equipment. The investment is carried net of accumulated depreciation of \$4,171,435 as of June 30, 2004 and \$3,557,263 as of June 30, 2003.

(f) *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.

(g) *Allowance for Loan Losses*

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was \$3,793,078 and \$7,269,830 for the years ended June 30, 2004 and 2003, respectively.

(h) *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 30 years for the building and from 3 to 10 years for furniture and equipment.

(i) *Bond Issuance Expense*

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

(j) *Other Real Estate Owned*

Other real estate owned represents 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.

(k) *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.

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Notes to Financial Statements

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(l) 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 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 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.

(m) Compensated Absences

Authority employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation, and sick pay earned and, upon retirement, termination, or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation and sick pay recognized as expense is the amount earned each year.

(n) Housing Choice Voucher 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. The Authority received and disbursed pass-through grants totaling \$120,332,874 and \$111,081,971 during the years ended June 30, 2004 and 2003, respectively.

(o) Virginia Housing Partnership Revolving Fund and the Commonwealth Priority Housing Fund

The Virginia Housing Partnership Revolving Fund (the Fund), established by the 1988 Session of the Virginia General Assembly, used funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development developed the program guidelines and the Authority acted as administrator for the Fund. On June 30, 2003, the Authority purchased all the assets of the Fund. A portion of the proceeds from the sale have been designated by the Commonwealth to establish the Commonwealth Priority Housing Fund. Similar to the Fund, the Department of Housing and Community Development will develop and oversee program guidelines and the Authority will act as administrator for the new fund.

(p) Cash Equivalents

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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

(q) *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.

(r) *Reclassifications*

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation.

(2) *Description of Account Groups*

(a) *General Operating Accounts*

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes 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.

(c) *General Purpose Bond Group*

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

(d) *Commonwealth Mortgage Bond Group*

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

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Notes to Financial Statements

June 30, 2004 and 2003

(3) Nonrestricted Assets

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

	June 30, 2004	June 30, 2003
Current assets:		
Cash and cash equivalents	\$ 36,784,482	110,439,597
Investments	161,665,616	35,995,821
Interest receivable – investments	1,108,783	1,356,265
Mortgage and other loans receivable	2,781,799	3,267,254
Interest receivable – mortgage and other loans	995,929	1,374,149
Other real estate owned	208,950	50,761
Other assets	1,597,830	412,589
Total nonrestricted current assets	205,143,389	152,896,436
Noncurrent assets:		
Investments	294,071,156	268,327,955
Mortgage and other loans receivable, net	109,797,131	133,396,093
Investment in rental property, net	—	2,729,508
Property, furniture, and equipment, less accumulated depreciation and amortization of \$13,738,597 and \$21,566,269	3,196,494	14,209,708
Unamortized bond issuance expenses	—	122,609
Other assets	4,104,087	4,274,092
Total nonrestricted noncurrent assets	411,168,868	423,059,965
Total nonrestricted assets	\$ 616,312,257	575,956,401

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.

(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:

Loan Program/Bond Group	Interest rates	Initial loan terms
Multi-Family Housing Bond Group	3.50% to 13.11%	30 to 40 years
Rental Housing Bond Group	1.29% to 13.13%	30 to 40 years
General Purpose Bond Group	0% to 14.03%	30 to 40 years
Commonwealth Mortgage Bond Group	0.50% to 13.85%	30 years

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Notes to Financial Statements

June 30, 2004 and 2003

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2004:

Multi-Family Housing, Rental Housing, and General Purpose Bond Groups	\$ 160,737,000
Commonwealth Mortgage Bond Group	<u>118,457,000</u>
	<u>\$ 279,194,000</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 \$332.7 million and \$275.7 million as of June 30, 2004 and 2003 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 30 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, 2004 and 2003, the carrying amount of the Authority's deposits were \$19,953,775 and \$21,263,151 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$18,312,385 and \$16,927,530. The associated bank balance of the Authority's deposits were \$23,185,516 and \$13,438,707 at June 30, 2004 and 2003. 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 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, 2004 and 2003.

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.

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Notes to Financial Statements

June 30, 2004 and 2003

The credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2004 were as follows:

	Category		Fair value
	1	2	
Repurchase agreements	\$ 346,455,834	6,900,049	353,355,883
Interest bearing checking	23,138	—	23,138
Municipal tax-exempt securities	150,000	—	150,000
Totals	\$ 346,628,972	6,900,049	353,529,021
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Notes			1,036,545
Total cash equivalents			\$ 354,565,566

The credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2003 were as follows:

	Category		Fair value
	1	2	
Repurchase agreements	\$ 508,598,294	71,257,748	579,856,042
Interest bearing checking	23,008	—	23,008
Municipal tax-exempt securities	1,075,000	—	1,075,000
Totals	\$ 509,696,302	71,257,748	580,954,050
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Notes			853,332
Total cash equivalents			\$ 581,807,382

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Notes to Financial Statements

June 30, 2004 and 2003

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, 2004 and 2003 (all of which were classified Category 1) were as follows:

	<u>2004</u>	<u>2003</u>
U.S. Government and agency securities	\$ 88,417,121	45,903,161
Corporate notes	87,743,694	114,069,040
Municipal tax-exempt securities	30,331,918	29,546,081
Asset backed securities	286,758,280	342,194,422
Agency mortgage backed	<u>100,966,081</u>	<u>155,567,516</u>
Totals	594,217,094	687,280,220
Add amounts not categorized because securities are not used as evidence of the investments:		
Transamerica Occidental Life Notes	80,000,000	—
Federal Home Loan Bank Notes	<u>139,670,000</u>	<u>8,535,000</u>
Total investments	\$ <u>813,887,094</u>	<u>695,815,220</u>

The above investments are presented in the Statement of Net Assets as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current investments	\$ 301,672,646	162,974,448
Noncurrent investments	<u>512,214,448</u>	<u>532,840,772</u>
Total investments	\$ <u>813,887,094</u>	<u>695,815,220</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 2004 was as follows:

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,411,496	748,676	(515,771)	14,644,401
Motor vehicles	<u>312,993</u>	<u>32,602</u>	—	<u>345,595</u>
	\$ <u>35,775,977</u>	<u>781,278</u>	<u>(515,771)</u>	<u>36,041,484</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Activity in the related accumulated depreciation accounts during fiscal year 2004 was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Building	\$ (8,489,684)	(666,839)	—	(9,156,523)
Furniture and equipment	(12,854,424)	(1,134,848)	515,650	(13,473,622)
Motor vehicles	(222,161)	(42,813)	—	(264,974)
	<u>\$ (21,566,269)</u>	<u>(1,844,500)</u>	<u>515,650</u>	<u>(22,895,119)</u>

Activity in the property, furniture, and equipment accounts for fiscal year 2003 was as follows:

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,846,513	503,815	(938,832)	14,411,496
Motor vehicles	312,993	—	—	312,993
	<u>\$ 36,210,994</u>	<u>503,815</u>	<u>(938,832)</u>	<u>35,775,977</u>

Activity in the related accumulated depreciation accounts during fiscal year 2003 was as follows:

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Building	\$ (7,822,846)	(666,838)	—	(8,489,684)
Furniture and equipment	(12,117,723)	(1,684,370)	947,669	(12,854,424)
Motor vehicles	(186,295)	(35,866)	—	(222,161)
	<u>\$ (20,126,864)</u>	<u>(2,387,074)</u>	<u>947,669</u>	<u>(21,566,269)</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2004 were as follows:

<u>Description</u>	<u>Balance at June 30, 2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2004</u>
(Amounts shown in thousands)				
General Operating Accounts:				
Notes:				
Federal Home Loan Bank, floating rate (weighted average rate of 1.47% at June 30, 2004), no fixed maturity	\$ 8,535	182,206	51,071	139,670
VHDA General Purpose Bonds:				
1993 Series ABC, dated June 16, 1993, 5.79% effective interest rate, final due date July 1, 2019	25,035	—	25,035	—
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	89,010	—	1,950	87,060
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	263,360	—	1,780	261,580
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	—	29,085	—	29,085
2003 Series R/S/T/U, dated October 30, 2003, 4.62% effective interest rate, final due date October 1, 2038	—	88,285	125	88,160
2003 Series V, dated June 26, 2003, 4.52% effective interest rate, final due date October 1, 2029	52,440	—	—	52,440
	<u>429,845</u>	<u>117,370</u>	<u>28,890</u>	<u>518,325</u>
Unamortized discount	<u>(3,749)</u>			<u>(3,555)</u>
	<u>426,096</u>			<u>514,770</u>
Total General Operating Accounts	<u>434,631</u>			<u>654,440</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
		(Amounts shown in thousands)		
Multi-Family Housing Bond Group:				
1982 Series A, dated June 30, 1982, 10.88% effective interest rate, final due date November 1, 2017	\$ 4,150	—	4,150	—
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	103	—	103	—
1989 Series D, dated September 15, 1989 and October 11, 1989, 7.37% effective interest rate, final due date November 1, 2014	441	—	441	—
1991 Series F, dated August 15, 1991, 7.05% effective interest rate, final due date May 1, 2013	115	—	115	—
1992 Series C/D, dated March 15, 1992, 6.88% effective interest rate, final due date May 1, 2018	400	—	400	—
1992 Series F/G, dated October 1, 1992 and October 14, 1992, 6.26% effective interest rate, final due date November 1, 2022	470	—	470	—
1993 Series A, dated February 10, 1993, 7.79% effective interest rate, final due date November 1, 2015	590	—	590	—
1993 Series C/D/E/F, dated April 1, 1993 May 1, 1993 and June 1, 1993, 5.64% effective interest rate, final due dated November 1, 2017	89,915	—	76,050	13,865
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	5,930	—	3,140	2,790
1994 Series A, dated March 1, 1994, 6.94% effective interest rate, final due date November 1, 2015	14,030	—	14,030	—
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	21,370	—	17,695	3,675

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Notes to Financial Statements

June 30, 2004 and 2003

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
1994 Series D, dated April 1, 1994, 7.78% effective interest rate, final due date May 1, 2015	\$ 18,950	—	18,950	—
1994 Series F/G, dated June 1, 1994, 6.34% effective interest rate, final due date May 1, 2015	10,445	—	10,445	—
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	7,955	—	415	7,540
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	17,110	—	820	16,290
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	10,305	—	480	9,825
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	3,655	—	240	3,415
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	12,785	—	715	12,070
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	47,460	—	2,720	44,740
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	6,080	—	340	5,740
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	22,555	—	1,255	21,300
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	49,565	—	2,600	46,965
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	26,675	—	1,380	25,295
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,680	—	230	4,450
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	27,555	—	1,535	26,020

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Notes to Financial Statements

June 30, 2004 and 2003

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
		(Amounts shown in thousands)		
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	\$ 17,450	—	840	16,610
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	15,530	—	650	14,880
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	20,375	—	875	19,500
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	44,270	—	1,795	42,475
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	49,025	—	1,690	47,335
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,700	—	305	6,395
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	50,290	—	2,035	48,255
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	46,975	—	1,635	45,340
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018	51,135	—	2,200	48,935
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	29,725	—	1,125	28,600
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	43,935	—	1,960	41,975
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	33,340	—	1,260	32,080
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	32,580	—	1,325	31,255

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Notes to Financial Statements

June 30, 2004 and 2003

<u>Description</u>	<u>Balance at June 30, 2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2004</u>
		(Amounts shown in thousands)		
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	\$ 70,820	—	2,835	67,985
	<u>918,279</u>	<u>—</u>	<u>182,679</u>	<u>735,600</u>
Compound interest payable	<u>696</u>			<u>—</u>
	918,975			735,600
Unamortized premium (discount)	<u>(283)</u>			<u>2,625</u>
Total Multi-Family Housing Bonds	<u>918,692</u>			<u>738,225</u>
Rental Housing Bond Group:				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	45,430	—	1,440	43,990
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	53,905	—	1,415	52,490
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	36,150	—	955	35,195
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	35,190	—	975	34,215
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	62,100	—	1,325	60,775
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	16,920	—	365	16,555
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	45,120	—	1,235	43,885
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	63,980	—	1,435	62,545
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	61,780	—	1,295	60,485
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	14,430	—	410	14,020

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Notes to Financial Statements

June 30, 2004 and 2003

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	\$ 21,155	—	620	20,535
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	49,930	—	1,030	48,900
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	64,140	—	1,390	62,750
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	43,165	—	700	42,465
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	37,560	—	430	37,130
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	24,605	—	500	24,105
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	44,950	—	750	44,200
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	63,385	—	—	63,385
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	77,435	—	120	77,315
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	58,820	—	1,070	57,750
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	—	63,675	—	63,675
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	—	83,775	—	83,775
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	—	52,110	—	52,110
2004 Series A/B, dated March 17, 2004, 5.25% effective interest rate, final due date March 1, 2030	—	17,205	—	17,205

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
		(Amounts shown in thousands)		
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	\$ —	75,895	—	75,895
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	—	54,295	—	54,295
	920,150	346,955	17,460	1,249,645
Unamortized premium (discount)	<u>(3,601)</u>			<u>751</u>
Total Rental Housing Bonds	<u>916,549</u>			<u>1,250,396</u>
Commonwealth Mortgage Bonds:				
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	71,120	—	1,275	69,845
1995 Series C/D, dated June 22, 1995, 6.01% effective interest rate, final due date January 1, 2030	74,005	—	74,005	—
1996 Series B/C, dated June 20, 1996, 6.08% effective interest rate, final due date July 1, 2026	51,600	—	51,600	—
1996 Series E/F, dated December 18, 1996, 5.21% effective 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	37,725	—	14,740	22,985
1997 Series A, dated June 12, 1997, 7.28% effective interest rate, final due date January 1, 2046	9,460	—	9,460	—
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	50,085	—	16,660	33,425
1998 Series A/B/C, dated January 15, 1998, 5.23% effective interest rate, final due date January 1, 2047	13,555	—	13,555	—
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	108,500	—	44,650	63,850

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Description	June 30, 2003	Issued	Retired	June 30, 2004
		(Amounts shown in thousands)		
1998 Series F, dated October 27, 1998, 6.39% effective interest rate, final due date April 1, 2020	\$ 196,235	—	196,235	—
1999 Series A/B, dated June 29, 1999, 7.38% effective interest rate, final due date October 1, 2020	45,090	—	45,090	—
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	149,790	—	94,645	55,145
2000 Series C, dated March 31, 2000, 7.59% effective interest rate, final due date July 1, 2021	2,395	—	2,395	—
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	47,453	—	28,828	18,625
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	49,001	—	29,092	19,909
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	140,955	—	42,785	98,170
2001 Series E, dated August 30, 2001, 5.88% effective interest rate, final due date July 1, 2023	4,900	—	4,900	—
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	63,797	—	37,122	26,675
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	73,749	—	42,897	30,852
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	331,670	—	77,050	254,620
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	75,054	—	37,820	37,234
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	148,488	—	54,339	94,149

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

<u>Description</u>	<u>Balance at June 30, 2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2004</u>
		(Amounts shown in thousands)		
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	\$ 84,311	—	42,208	42,103
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	14,627	—	8,132	6,495
2002 Series E/F/G, dated December 17, 2002, 5.00% effective interest rate, final due date December 25, 2032	117,124	—	23,411	93,713
2003 Series A/B, dated April 3, 2003, 2.36% effective interest rate, final due date April 1, 2027	173,420	—	500	172,920
2003 Series C, dated October 1, 2003, 5.00% effective interest rate, final due date August 25, 2033	—	10,056	2,870	7,186
2004 Series A, dated March 18, 2004, 1.39% effective interest rate, final due date October 1, 2035	—	180,000	—	180,000
2004 Series B, dated June 10, 2004, 5.50% effective interest rate, final due date June 25, 2034	—	20,588	—	20,588
	<u>2,497,109</u>	<u>210,644</u>	<u>996,264</u>	<u>1,711,489</u>
Unamortized discount	<u>(7,793)</u>			<u>(3,083)</u>
Total Commonwealth Mortgage Bonds	<u>2,489,316</u>			<u>1,708,406</u>
Total	<u>\$ 4,759,188</u>			<u>4,351,467</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Notes and bonds payable at June 30, 2003 were as follows:

<u>Description</u>	<u>June 30, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Change in unamortized premium/discount and compound interest payable</u>	<u>June 30, 2003</u>
General Operating Accounts	\$ 32,978	586,765	181,360	(3,752)	434,631
Multi-Family Housing Bonds	1,139,603	—	236,290	15,379	918,692
Rental Housing Bonds	791,009	136,255	11,095	380	916,549
Other Multi-Family Programs	147,753	—	148,000	247	—
Commonwealth Mortgage Bonds	3,952,139	296,609	1,762,196	2,764	2,489,316
Totals	<u>\$ 6,063,482</u>	<u>1,019,629</u>	<u>2,338,941</u>	<u>15,018</u>	<u>4,759,188</u>

	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Notes and bonds payable – current	\$ 445,194	406,433
Bonds payable – noncurrent	4,313,994	3,945,034
Totals	<u>\$ 4,759,188</u>	<u>4,351,467</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.

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 10 to 15 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

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, 2004 and thereafter are as follows:

<u>Period ending June 30,</u>	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
2005	\$ 406,433,453	213,109,620	619,543,073
2006	206,595,334	204,154,321	410,749,655
2007	199,963,940	194,462,203	394,426,143
2008	194,880,301	185,001,820	379,882,121
2009	187,365,923	175,538,050	362,903,973
2010 – 2014	891,119,159	736,917,870	1,628,037,029
2015 – 2019	816,583,747	501,673,530	1,318,257,277
2020 – 2024	561,459,477	299,333,427	860,792,904
2025 – 2029	439,939,286	147,673,772	587,613,058
2030 – 2034	148,533,486	72,036,836	220,570,322
2035 – 2039	162,305,000	32,374,315	194,679,315
2040 – 2044	108,850,000	9,589,649	118,439,649
2045 – 2049	30,700,000	366,025	31,066,025
	<u>\$ 4,354,729,106</u>	<u>2,772,231,438</u>	<u>7,126,960,544</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, 2004 and 2003, these escrows and project reserves were presented in the Authority's statement of net assets as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Escrows and project reserves – current	\$ 31,308,705	26,869,102
Escrows and project reserves – noncurrent	151,249,096	145,728,513
Totals	<u>\$ 182,557,801</u>	<u>172,597,615</u>

(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 \$2,513,073 and \$5,332,322 at June 30, 2004 and 2003, respectively.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

(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 years ended June 30, 2004 and 2003, the Authority experienced net gains of \$2,463,723 and net losses of \$2,432,599, respectively, from hedging transactions settled during the year. At June 30, 2004, \$6,723,156 of short sales were outstanding which had an unrealized gain of \$19,185. 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, 2004 and 2003, such designations included funding for the Virginia Housing 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.

(12) Employee Benefit Plans

The Authority incurs employment retirement savings expense equal to 8% of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2004 and 2003 was \$1,391,207 and \$1,329,292, respectively.

The Authority sponsors a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement or

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

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, 2004 and 2003, included in accounts payable and other liabilities is an employee compensated absences accrual of \$2,866,993 and \$2,791,220, respectively (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 \$5,141,028 and \$4,367,496 as of June 30, 2004 and 2003, respectively (see note 13). Total expense incurred for these benefits for the years ended June 30, 2004 and 2003 was \$593,529 and \$589,862, respectively.

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for fiscal year 2004, was as follows:

	Balance at June 30, 2003	Additions	Decreases	Balance at June 30, 2004
Project reserves	\$ 145,728,513	31,264,816	25,744,233	151,249,096
Commonwealth Priority Housing				
Fund liability	19,284,152	453,802	806,136	18,931,818
Other liabilities	19,134,075	1,716,897	11,053,426	9,797,546
Compensated absences payable	2,791,220	1,429,785	1,354,012	2,866,993
Retiree healthcare	4,367,496	1,048,984	275,452	5,141,028
Total	<u>\$ 191,305,456</u>	<u>35,914,284</u>	<u>39,233,259</u>	<u>187,986,481</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for fiscal year 2003, was as follows:

	Balance at June 30, 2002	Additions	Decreases	Balance at June 30, 2003
Project reserves	\$ 144,978,650	26,464,414	25,714,551	145,728,513
Virginia Housing Partnership				
Fund liability	86,586,662	3,114,807	89,701,469	—
Commonwealth Priority Housing				
Fund liability	—	19,284,152	—	19,284,152
Other liabilities	24,141,996	5,049,475	10,057,396	19,134,075
Compensated absences payable	2,675,330	1,556,501	1,440,611	2,791,220
Retiree healthcare	3,603,734	930,636	166,874	4,367,496
Total	<u>\$ 261,986,372</u>	<u>56,399,985</u>	<u>127,080,901</u>	<u>191,305,456</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

(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.

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, 2004, 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, 2004 and through September 24, 2004, as follows:

Bond group	Redemption date	Aggregate principal amount redeemed
Commonwealth Mortgage Bonds	July 1, 2004	\$ 19,285,000
Commonwealth Mortgage Bonds	August 1, 2004	73,745,000
Commonwealth Mortgage Bonds	September 1, 2004	28,010,000

On September 2, 2004, the Authority sold \$56,230,000 of Rental Housing Bonds, 2004 Series F/G.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2004

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:							
Cash and cash equivalents	\$ 45,478,818	38,806,001	42,758,074	—	33,242,841	214,233,607	374,519,341
Investments	161,665,616	39,096,666	20,910,364	—	—	80,000,000	301,672,646
Interest receivable – investments	1,122,329	439,773	181,723	—	54,618	310,986	2,109,429
Mortgage and other loans receivable	2,781,799	17,638,279	14,765,741	—	15,685,442	37,755,109	88,626,370
Interest receivable – mortgage and other loans	1,014,151	5,766,510	7,944,228	—	2,841,879	8,428,117	25,994,885
Other real estate owned	208,950	—	—	—	81,255	2,078,519	2,368,724
Housing Choice Voucher contributions receivable	1,079,267	—	—	—	—	—	1,079,267
Other assets	2,158,376	—	—	—	801,865	211,291	3,171,532
Total current assets	<u>215,509,306</u>	<u>101,747,229</u>	<u>86,560,130</u>	<u>—</u>	<u>52,707,900</u>	<u>343,017,629</u>	<u>799,542,194</u>
Noncurrent assets:							
Investments	306,505,732	66,899,142	86,398,696	—	35,170,606	17,240,272	512,214,448
Mortgage and other loans receivable	121,538,716	873,943,989	1,131,751,790	—	466,598,673	2,340,992,630	4,934,825,798
Less allowance for loan loss	6,293,391	5,945,578	6,960,134	—	3,699,474	9,671,213	32,569,790
Less net deferred loan fees	282,334	12,818,684	20,909,124	—	6,558,923	13,481,170	54,050,235
Mortgage and other loans receivable, net	<u>114,962,991</u>	<u>855,179,727</u>	<u>1,103,882,532</u>	<u>—</u>	<u>456,340,276</u>	<u>2,317,840,247</u>	<u>4,848,205,773</u>
Investment in rental property, net	—	363,811	16,706,000	—	3,392,822	—	20,462,633
Property, furniture, and equipment, less accumulated depreciation and amortization of \$22,895,119	3,196,494	—	—	—	9,949,871	—	13,146,365
Unamortized bond issuance expenses	—	1,532,934	1,499,746	—	1,953,925	804,684	5,791,289
Interfund receivable	(26,276,399)	5,945,578	6,960,134	—	3,699,474	9,671,213	—
Other assets	2,965,137	—	—	—	—	2,671,893	5,637,030
Total noncurrent assets	<u>401,353,955</u>	<u>929,921,192</u>	<u>1,215,447,108</u>	<u>—</u>	<u>510,506,974</u>	<u>2,348,228,309</u>	<u>5,405,457,538</u>
Total assets	<u>\$ 616,863,261</u>	<u>1,031,668,421</u>	<u>1,302,007,238</u>	<u>—</u>	<u>563,214,874</u>	<u>2,691,245,938</u>	<u>6,204,999,732</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2004

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:							
Notes and bonds payable	\$ 139,670,000	41,095,000	27,105,000	—	9,295,000	189,268,453	406,433,453
Accrued interest payable on notes and bonds	112,143	7,551,718	19,999,465	—	10,135,173	25,457,962	63,256,461
Housing Choice Voucher contributions payable	—	—	—	—	—	—	—
Escrows and project reserves	31,308,705	—	—	—	—	—	31,308,705
Accounts payable	12,004,571	115,036	525,149	—	1,633,511	13,826,745	28,105,012
Total current liabilities	<u>183,095,419</u>	<u>48,761,754</u>	<u>47,629,614</u>	<u>—</u>	<u>21,063,684</u>	<u>228,553,160</u>	<u>529,103,631</u>
Noncurrent liabilities:							
Bonds payable, net	—	697,129,651	1,223,291,529	—	505,474,805	1,519,138,174	3,945,034,159
Escrows and project reserves	151,249,096	—	—	—	—	—	151,249,096
Other liabilities	34,729,749	1,718,547	241,989	—	47,100	—	36,737,385
Total noncurrent liabilities	<u>185,978,845</u>	<u>698,848,198</u>	<u>1,223,533,518</u>	<u>—</u>	<u>505,521,905</u>	<u>1,519,138,174</u>	<u>4,133,020,640</u>
Total liabilities	<u>369,074,264</u>	<u>747,609,952</u>	<u>1,271,163,132</u>	<u>—</u>	<u>526,585,589</u>	<u>1,747,691,334</u>	<u>4,662,124,271</u>
Net assets:							
Invested in capital assets, net of related debt	3,196,494	226,077	(3,319,478)	—	(9,702,813)	—	(9,599,720)
Restricted by bond indentures	—	283,832,392	34,163,584	—	46,332,098	943,554,604	1,307,882,678
Unrestricted	244,592,503	—	—	—	—	—	244,592,503
Total net assets	<u>247,788,997</u>	<u>284,058,469</u>	<u>30,844,106</u>	<u>—</u>	<u>36,629,285</u>	<u>943,554,604</u>	<u>1,542,875,461</u>
Total liabilities and net assets	<u>\$ 616,863,261</u>	<u>1,031,668,421</u>	<u>1,302,007,238</u>	<u>—</u>	<u>563,214,874</u>	<u>2,691,245,938</u>	<u>6,204,999,732</u>

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2004

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:							
Interest on mortgage and other loans	\$ 6,509,081	79,180,992	75,495,456	—	35,019,262	175,872,618	372,077,409
Pass-through grants received	120,332,874	—	—	—	—	—	120,332,874
Housing Choice Voucher fee income earned	6,490,654	—	—	—	—	—	6,490,654
Gains and recoveries on sale of other real estate owned	1,703	—	—	—	218	440,887	442,808
Other	4,679,898	1,310,767	532,595	—	2,220,289	—	8,743,549
Total operating revenues	138,014,210	80,491,759	76,028,051	—	37,239,769	176,313,505	508,087,294
Operating expenses:							
Interest on notes and bonds	1,391,539	53,961,900	65,958,787	—	23,770,360	99,734,308	244,816,894
Salaries and related employee benefits	25,128,206	—	—	—	—	—	25,128,206
General operating expenses	11,000,357	313,500	234,726	—	938,348	—	12,486,931
Amortization and bond issuance expenses	122,834	389,948	65,818	—	52,753	508,263	1,139,616
Pass-through grants disbursed	120,332,874	—	—	—	—	—	120,332,874
Housing Choice Voucher program expenses	5,005,872	—	—	—	—	—	5,005,872
External mortgage servicing expense	25,428	—	—	—	10,233	3,568,445	3,604,106
Losses and expenses on other real estate owned	22,637	—	—	—	90,964	678,347	791,948
Provision for loan losses	3,793,078	—	—	—	—	—	3,793,078
Total operating expenses	166,822,825	54,665,348	66,259,331	—	24,862,658	104,489,363	417,099,525
Operating income (expense)	(28,808,615)	25,826,411	9,768,720	—	12,377,111	71,824,142	90,987,769
Nonoperating revenues:							
Investment income	1,688,758	856,032	1,655,295	—	722,187	4,068,008	8,990,280
Other, net	82,283	—	—	—	—	—	82,283
Total nonoperating revenues	1,771,041	856,032	1,655,295	—	722,187	4,068,008	9,072,563
Income (loss) before transfers	(27,037,574)	26,682,443	11,424,015	—	13,099,298	75,892,150	100,060,332
Transfers between funds							
Change in net assets	(20,651,541)	(12,709,274)	19,190,407	—	29,643,067	84,587,673	100,060,332
Total net assets, beginning of year	268,440,538	296,767,743	11,653,699	—	6,986,218	858,966,931	1,442,815,129
Total net assets, end of year	\$ 247,788,997	284,058,469	30,844,106	—	36,629,285	943,554,604	1,542,875,461

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2003

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:							
Cash and cash equivalents	\$ 135,950,926	27,637,222	30,747,516	—	28,533,018	380,201,851	603,070,533
Investments	42,704,808	4,569,130	9,195,425	—	—	106,505,085	162,974,448
Interest receivable – investments	1,356,968	709,816	49,243	—	59,833	437,455	2,613,315
Mortgage and other loans receivable	3,372,876	21,971,763	8,299,782	—	10,602,813	43,582,686	87,829,920
Interest receivable – mortgage and other loans	1,374,149	6,765,657	5,664,429	—	2,073,507	12,456,697	28,334,439
Other real estate owned	50,760	—	—	—	88,881	1,687,321	1,826,962
Other assets	505,703	—	—	—	1,648,512	452,753	2,606,968
Total current assets	<u>185,316,190</u>	<u>61,653,588</u>	<u>53,956,395</u>	<u>—</u>	<u>43,006,564</u>	<u>545,323,848</u>	<u>889,256,585</u>
Noncurrent assets:							
Investments	272,625,080	103,797,819	53,100,847	—	48,918,409	54,398,617	532,840,772
Mortgage and other loans receivable	140,566,442	1,071,288,812	849,791,086	—	325,759,314	2,807,033,233	5,194,438,887
Less allowance for loan loss	9,568,486	3,703,325	5,250,314	—	627,304	10,108,084	29,257,513
Less net deferred loan fees	328,113	15,183,858	15,152,675	—	2,353,070	15,333,420	48,351,136
Mortgage and other loans receivable, net	<u>130,669,843</u>	<u>1,052,401,629</u>	<u>829,388,097</u>	<u>—</u>	<u>322,778,940</u>	<u>2,781,591,729</u>	<u>5,116,830,238</u>
Investment in rental property, net	2,729,508	10,488,000	3,680,000	—	—	—	16,897,508
Property, furniture, and equipment, less accumulated depreciation and amortization of \$21,566,269	14,209,708	—	—	—	—	—	14,209,708
Unamortized bond issuance expenses	122,608	1,922,882	1,282,411	—	1,866,300	1,026,243	6,220,444
Interfund receivable	(19,689,027)	3,703,325	5,250,314	—	627,304	10,108,084	—
Other assets	4,274,092	—	—	—	—	4,374,945	8,649,037
Total noncurrent assets	<u>404,941,812</u>	<u>1,172,313,655</u>	<u>892,701,669</u>	<u>—</u>	<u>374,190,953</u>	<u>2,851,499,618</u>	<u>5,695,647,707</u>
Total assets	<u>\$ 590,258,002</u>	<u>1,233,967,243</u>	<u>946,658,064</u>	<u>—</u>	<u>417,197,517</u>	<u>3,396,823,466</u>	<u>6,584,904,292</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2003

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:							
Notes and bonds payable	\$ 9,535,000	52,064,170	17,460,000	—	3,730,000	362,404,491	445,193,661
Accrued interest payable on notes and bonds	719,946	9,368,968	17,594,950	—	8,348,807	40,327,380	76,360,051
Housing Choice Voucher contributions payable	5,882,555	—	—	—	—	—	5,882,555
Escrows and project reserves	26,869,102	—	—	—	—	—	26,869,102
Accounts payable	73,448,706	—	—	—	822,207	8,212,776	82,483,689
Total current liabilities	<u>116,455,309</u>	<u>61,433,138</u>	<u>35,054,950</u>	<u>—</u>	<u>12,901,014</u>	<u>410,944,647</u>	<u>636,789,058</u>
Noncurrent liabilities:							
Bonds payable, net	24,055,521	866,627,970	899,088,985	—	397,310,285	2,126,911,888	4,313,994,649
Escrows and project reserves	145,728,513	—	—	—	—	—	145,728,513
Other liabilities	35,578,121	9,138,392	860,430	—	—	—	45,576,943
Total noncurrent liabilities	<u>205,362,155</u>	<u>875,766,362</u>	<u>899,949,415</u>	<u>—</u>	<u>397,310,285</u>	<u>2,126,911,888</u>	<u>4,505,300,105</u>
Total liabilities	<u>321,817,464</u>	<u>937,199,500</u>	<u>935,004,365</u>	<u>—</u>	<u>410,211,299</u>	<u>2,537,856,535</u>	<u>5,142,089,163</u>
Net assets:							
Invested in capital assets, net of related debt	(5,616,628)	3,894,619	—	—	—	—	(1,722,009)
Restricted by bond indentures	2,479,156	292,873,124	11,653,699	—	6,986,218	858,966,931	1,172,959,128
Unrestricted	271,578,010	—	—	—	—	—	271,578,010
Total net assets	<u>268,440,538</u>	<u>296,767,743</u>	<u>11,653,699</u>	<u>—</u>	<u>6,986,218</u>	<u>858,966,931</u>	<u>1,442,815,129</u>
Total liabilities and net assets	<u>\$ 590,258,002</u>	<u>1,233,967,243</u>	<u>946,658,064</u>	<u>—</u>	<u>417,197,517</u>	<u>3,396,823,466</u>	<u>6,584,904,292</u>

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2003

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:							
Interest on mortgage and other loans	\$ 22,038,856	94,841,428	57,131,156	3,039,501	—	243,453,288	420,504,229
Pass-through grants received	111,081,971	—	—	—	—	—	111,081,971
Housing Choice Voucher fee income earned	4,604,787	—	—	—	—	—	4,604,787
Gains and recoveries on sale of other real estate owned	—	—	—	—	—	1,005,160	1,005,160
Other	5,105,501	1,750,048	46,408	—	—	—	6,901,957
Total operating revenues	142,831,115	96,591,476	57,177,564	3,039,501	—	244,458,448	544,098,104
Operating expenses:							
Interest on notes and bonds	13,812,830	65,969,454	53,528,704	3,359,234	—	169,746,658	306,416,880
Salaries and related employee benefits	24,445,932	—	—	—	—	—	24,445,932
General operating expenses	13,171,959	442,000	20,000	—	—	—	13,633,959
Amortization and bond issuance expenses	39,015	587,416	55,259	108,308	—	917,597	1,707,595
Pass-through grants disbursed	111,081,971	—	—	—	—	—	111,081,971
Housing Choice Voucher program expenses	5,614,216	—	—	—	—	—	5,614,216
External mortgage servicing expense	31,965	—	—	6,224	—	5,446,876	5,485,065
Losses and expenses on other real estate owned	9,697	—	—	—	—	1,294,789	1,304,486
Provision for loan losses	7,269,830	—	—	—	—	—	7,269,830
Total operating expenses	175,477,415	66,998,870	53,603,963	3,473,766	—	177,405,920	476,959,934
Operating income (expense)	(32,646,300)	29,592,606	3,573,601	(434,265)	—	67,052,528	67,138,170
Nonoperating revenues:							
Investment income	9,036,641	7,276,610	2,383,695	(59,458)	—	12,617,941	31,255,429
Other, net	411,747	—	—	—	—	—	411,747
Total nonoperating revenues	9,448,388	7,276,610	2,383,695	(59,458)	—	12,617,941	31,667,176
Income (loss) before transfers	(23,197,912)	36,869,216	5,957,296	(493,723)	—	79,670,469	98,805,346
Transfers between funds	54,081,554	(28,663,964)	4,963,410	(654,402)	—	(29,726,598)	—
Change in net assets	30,883,642	8,205,252	10,920,706	(1,148,125)	—	49,943,871	98,805,346
Total net assets, beginning of year	244,543,114	288,562,491	732,993	1,148,125	—	809,023,060	1,344,009,783
Total net assets, end of year	\$ 275,426,756	296,767,743	11,653,699	—	—	858,966,931	1,442,815,129

See accompanying independent auditors' report.



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

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, 2004, and have issued our report thereon dated September 24, 2004. 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.

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 reportable 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 caused by error or fraud 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.

COMPLIANCE AND OTHER MATTERS

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 specified parties.

KPMG LLP

September 24, 2004



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