

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	7
Basic Financial Statements:	
Statements of Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Supplementary Information	
1 Combining Schedule of Net Assets – June 30, 2005	37
2 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – June 30, 2005	39
3 Combining Schedule of Net Assets – June 30, 2004	40
4 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – June 30, 2004	42
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 <i>Government Auditing Standards</i>	43

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

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, 2005 and 2004. 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 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, 2005 and 2004

FINANCIAL HIGHLIGHTS

Fiscal Year 2005

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2005 and June 30, 2004:

- Total assets increased \$755.40 million (or 12.17%)
- Total liabilities increased \$629.12 million (or 13.49%)
- Total net assets increased \$126.28 million (or 8.18%)
- Investments increased \$257.77 million (or 31.67%)
- Investment income increased \$18.13 million (or 201.63%)
- Mortgage and other loans net receivable - increased \$333.80 million (or 6.76%)
- Interest on mortgage and other loans receivable decreased \$9.44 million (or 2.54%)
- Notes and bonds payable increased \$602.31 million (or 13.84%)
- Interest on notes and bonds payable decreased \$12.54 million (or 5.12%)

Primary factors that contributed to these changes were as follows:

- Total assets increased primarily due to growth in the mortgage loan portfolios. Following a sluggish start to the fiscal year, characterized by record repayments in the single family programs, both the single family and multi-family portfolios finished the year with moderate growth over 2004 levels.
- Cash and investment balances were also higher, as were total liabilities (principally notes and bonds payable), in support of increased mortgage lending activity.
- Lower interest rates and single family repayment rates early in the year resulted in decreased mortgage loan income; however, lower note and bond interest expense more than offset it, resulting in record growth in net assets of more than \$126 million.

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%)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

- 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.

FINANCIAL ANALYSIS OF THE AUTHORITY

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

	June 30,		June 30, 2005 vs. June 30, 2004 % increase (decrease)
	2005	2004	
Cash and cash equivalents	\$ 539,878,391	374,519,341	44.15%
Investments	1,071,652,485	813,887,094	31.67
Mortgage and other loans receivable-net	5,270,637,072	4,936,832,143	6.76
Other assets	78,230,583	79,761,154	(1.92)
Total assets	<u>6,960,398,531</u>	<u>6,204,999,732</u>	12.17
Notes and bonds payable-net	4,953,781,728	4,351,467,612	13.84
Other liabilities	337,462,361	310,656,659	8.63
Total liabilities	<u>5,291,244,089</u>	<u>4,662,124,271</u>	13.49
Net assets	<u>\$ 1,669,154,442</u>	<u>1,542,875,461</u>	8.18

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

	June 30,		June 30, 2004
	vs.		June 30, 2003
	2004	2003	% increase (decrease)
Cash and cash equivalents	\$ 374,519,341	603,070,533	(37.90)%
Investments	813,887,094	695,815,220	16.97
Mortgage and other loans receivable-net	4,936,832,143	5,204,660,158	(5.15)
Other assets	79,761,154	81,358,381	(1.96)
Total assets	<u>6,204,999,732</u>	<u>6,584,904,292</u>	(5.77)
Notes and bonds payable – net	4,351,467,612	4,759,188,310	(8.57)
Other liabilities	310,656,659	382,900,853	(18.87)
Total liabilities	<u>4,662,124,271</u>	<u>5,142,089,163</u>	(9.33)
Net assets	\$ <u>1,542,875,461</u>	<u>1,442,815,129</u>	6.94

Description of Net Asset. 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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt	\$ (10,932,357)	(9,599,720)
Restricted by bond indentures	1,437,187,542	1,307,882,678
Unrestricted	242,899,257	244,592,503
Total net assets	\$ <u>1,669,154,442</u>	<u>1,542,875,461</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

Results of Operations for the Years Ended June 30, 2005 and 2004. Despite a slow start to the year due to continued low investment rates and above average single family loan repayment levels, the Authority enjoyed record earnings for the year ended June 30, 2005 with operating revenues in excess of operating expenses plus nonoperating revenues totaling \$126.28 million, an increase of 26.20% over 2004. The following table summarizes the key sources of revenues and expenses for the years ended June 30, 2005 and 2004 (in millions):

	June 30,	
	2005	2004
Operating revenues:		
Interest on mortgage and other loans receivable	\$ 362.6	372.1
Pass-through grants received	122.9	120.3
Other operating revenues	16.9	15.7
Total operating revenues	502.4	508.1
Operating expenses:		
Interest on notes and bonds payable	232.3	244.8
Pass-through grants disbursed	122.9	120.3
Other operating expenses	48.2	52.0
Total operating expenses	403.4	417.1
Net operating income	99.0	91.0
Non-operating revenues:		
Investment income*	27.1	9.0
Other non-operating revenue	0.2	0.1
Total non-operating revenue	27.3	9.1
Change in net assets	\$ 126.3	100.1

* Investment income is decreased by a fair market value adjustment totaling \$477 thousand and \$8.8 million for the years ended June 30, 2005 and 2004, respectively.

Long-Term Debt. As of June 30, 2005 and 2004, the Authority had net outstanding notes and bonds payable totaling \$4.95 and \$4.35 billion, respectively, and has maintained its strong long-term bond ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services. (Ratings on the Authority's Commonwealth Mortgage Bonds are Aaa and AAA, from Moody's and Standard & Poor's respectively).

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

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 have remained at historical low levels throughout fiscal years 2004 and 2005. If interest rates continue at current levels, the Authority expects mortgage and investment income to be stable. 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 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.

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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 23, 2005 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 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. Those reports are 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 and 4 are 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.

September 23, 2005

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Net Assets

June 30, 2005 and 2004

Assets	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents (note 5)	\$ 539,878,391	374,519,341
Investments (note 5)	625,079,943	301,672,646
Interest receivable – investments	3,525,839	2,109,429
Mortgage and other loans receivable (note 4)	94,282,402	88,626,370
Interest receivable – mortgage and other loans	24,327,265	25,994,885
Other real estate owned	3,552,467	2,368,724
Housing Choice Voucher contributions receivable	—	1,079,267
Other assets	4,484,812	3,171,532
Total current assets	<u>1,295,131,119</u>	<u>799,542,194</u>
Noncurrent assets:		
Investments (note 5)	446,572,542	512,214,448
Mortgage and other loans receivable (note 4):	5,256,662,830	4,934,825,798
Less allowance for loan loss	32,540,225	32,569,790
Less net deferred loan fees	47,767,935	54,050,235
Mortgage and other loans receivable, net	<u>5,176,354,670</u>	<u>4,848,205,773</u>
Investment in rental property, net	19,720,416	20,462,633
Property, furniture, and equipment, less accumulated depreciation and amortization of \$23,366,740 and \$22,895,119 (note 6)	12,193,260	13,146,365
Unamortized bond issuance expenses	5,890,663	5,791,289
Other assets	4,535,861	5,637,030
Total noncurrent assets	<u>5,665,267,412</u>	<u>5,405,457,538</u>
Total assets	<u>\$ 6,960,398,531</u>	<u>6,204,999,732</u>
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 522,980,000	406,433,453
Accrued interest payable on notes and bonds	64,399,972	63,256,461
Housing Choice Voucher contributions payable	3,207,898	—
Escrows (note 8)	26,255,514	25,185,432
Accounts payable and other liabilities (notes 5, 9, and 12)	46,856,087	28,105,012
Total current liabilities	<u>663,699,471</u>	<u>522,980,358</u>
Noncurrent liabilities:		
Bonds payable, net (note 7)	4,430,801,728	3,945,034,159
Project reserves (notes 8 and 13)	159,409,620	157,372,369
Other liabilities (notes 5, 9, 12, and 13)	37,333,270	36,737,385
Total noncurrent liabilities	<u>4,627,544,618</u>	<u>4,139,143,913</u>
Total liabilities	<u>5,291,244,089</u>	<u>4,662,124,271</u>
Net assets (note 11):		
Invested in capital assets, net of related debt	(10,932,357)	(9,599,720)
Restricted by bond indentures	1,437,187,542	1,307,882,678
Unrestricted	242,899,257	244,592,503
Total net assets	<u>1,669,154,442</u>	<u>1,542,875,461</u>
Total liabilities and net assets	<u>\$ 6,960,398,531</u>	<u>6,204,999,732</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues:		
Interest on mortgage and other loans	\$ 362,637,474	372,077,409
Pass-through grants received	122,856,397	120,332,874
Housing Choice Voucher fee income	7,520,382	6,490,654
Gains and recoveries on sale of other real estate owned	227,057	442,808
Other	9,186,841	8,743,549
Total operating revenues	502,428,151	508,087,294
Operating expenses:		
Interest on notes and bonds	232,280,943	244,816,894
Salaries and related employee benefits (note 12)	25,696,975	25,128,206
General operating expenses	12,233,190	12,067,321
Note and bond expenses	465,915	419,610
Amortization of bond issuance expenses	734,118	1,139,616
Pass-through grants disbursed	122,856,397	120,332,874
Housing Choice Voucher program expenses	5,582,860	5,005,872
External mortgage servicing expenses	2,833,828	3,604,106
Losses and expenses on other real estate owned	745,500	791,948
Provision for loan losses	—	3,793,078
Total operating expenses	403,429,726	417,099,525
Operating income	98,998,425	90,987,769
Nonoperating revenues:		
Investment income (note 9)	27,117,078	8,990,280
Other, net	163,478	82,283
Total nonoperating revenues	27,280,556	9,072,563
Change in net assets	126,278,981	100,060,332
Total net assets, beginning of year	1,542,875,461	1,442,815,129
Total net assets, end of year	\$ 1,669,154,442	1,542,875,461

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (1,021,247,650)	(837,891,116)
Principal repayments on mortgage and other loans	702,983,006	1,096,996,637
Interest received on mortgage and other loans	356,945,456	363,946,599
Housing Choice Voucher contributions and pass-through grants received	135,743,250	125,336,788
Housing Choice Voucher contributions and pass-through grants disbursed	(130,319,280)	(130,919,830)
Escrow and project reserve payments received	163,805,073	157,937,121
Escrow and project reserve payments disbursed	(160,377,951)	(146,401,745)
Other operating revenues	7,691,367	6,738,318
Cash received for loan origination fees	8,182,888	10,695,851
Cash paid for loan origination fees	(8,415,351)	(5,137,695)
Cash payments for salaries and related benefits	(24,723,397)	(23,851,911)
Cash payments for general operating expenses	(2,773,310)	(8,955,258)
Cash payments for mortgage servicing expenses	(1,501,005)	(1,894,887)
Proceeds from sale of other real estate owned	2,446,464	5,150,837
Net cash provided by operating activities	<u>28,439,560</u>	<u>611,749,709</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	1,199,865,000	857,175,255
Principal payments on notes and bonds	(602,391,744)	(1,249,026,188)
Interest payments on notes and bonds	(219,983,322)	(243,775,342)
Cash payments for bond issuance expenses	(5,750,140)	(1,473,635)
Redemption premium paid on bond calls	(1,396,600)	(2,561,200)
Net cash provided by (used in) noncapital financing activities	<u>370,343,194</u>	<u>(639,661,110)</u>
Cash flows from capital and related financing activities:		
Principal payments on building bonds	—	(25,035,000)
Interest payments on building bonds	—	(1,174,834)
Redemption premium paid on bond calls	—	(480,700)
Purchases of property, furniture and equipment	(464,031)	(781,277)
Proceeds from disposal of furniture and equipment	63,712	—
Net cash used in capital and related financing activities	<u>(400,319)</u>	<u>(27,471,811)</u>
Cash flows from investing activities:		
Purchases of investments	(1,374,862,291)	(1,282,703,251)
Proceeds from sales or maturities of investments	1,116,313,636	1,094,062,312
Interest received on investments	25,525,270	15,472,959
Net cash used in investing activities	<u>(233,023,385)</u>	<u>(173,167,980)</u>
Net increase (decrease) in cash and cash equivalents	165,359,050	(228,551,192)
Cash and cash equivalents, at beginning of year	<u>374,519,341</u>	<u>603,070,533</u>
Cash and cash equivalents, at end of year	<u>\$ 539,878,391</u>	<u>374,519,341</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 98,998,425	90,987,769
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of property, furniture and equipment	1,415,461	1,844,500
Other depreciation and amortization	2,809,158	1,839,622
Interest on notes and bonds	232,280,943	244,816,894
Investment in rental property	—	(4,179,297)
(Increase) decrease in mortgage and other loans receivable	(324,868,158)	263,098,902
Decrease in interest receivable – mortgage and other loans	1,667,620	2,331,277
Increase in other real estate owned	(1,183,743)	(630,331)
(Increase) decrease in other assets	(1,443,492)	7,374,079
Increase (decrease) in accounts payable and other liabilities	19,956,266	(3,697,523)
Increase (decrease) in Housing Choice Voucher contribution payable	4,287,165	(6,961,822)
Increase in escrows and project reserves	3,427,122	11,535,376
Increase (decrease) in net deferred loan fees	(8,907,207)	3,390,263
Net cash provided by operating activities	\$ 28,439,560	611,749,709
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	\$ 3,873,554	9,962,915

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(1) Organization and Summary of Significant Account 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 Government 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 several multi-family apartment complexes, including property, furniture, and equipment. These assets are recorded at cost and are depreciated using the

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

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 \$4,913,652 as of June 30, 2005 and \$4,171,435 as of June 30, 2004.

(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. For the year ended June 30, 2005 there was no provision for loan losses. The provision for the year ended June 30, 2004 totaled \$3,793,078.

(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 thirty years for the building and from three to ten 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(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 one hundred percent vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the 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 \$122,856,397 and \$120,332,874 during the years ended June 30, 2005 and 2004, respectively.

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

The Virginia Housing Partnership Revolving Fund, established by the 1988 Session of the Virginia General Assembly, and the Commonwealth Priority Housing Fund use funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develop the program guidelines and the Authority acts as administrator for the Funds.

(p) Cash Equivalents

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

(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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

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, 2004 financial statements to conform to the June 30, 2005 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 and 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 the 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(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,	
	2005	2004
Nonrestricted assets:		
Current assets:		
Cash and cash equivalents	\$ 72,476,172	36,784,482
Investments	359,879,268	161,665,616
Interest receivable – investments	1,099,005	1,108,783
Mortgage and other loans receivable	2,928,030	2,781,799
Interest receivable – mortgage and other loans	958,980	995,929
Other real estate owned	359,431	208,950
Other assets	1,895,300	1,597,830
Total nonrestricted current assets	439,596,186	205,143,389
Noncurrent assets:		
Investments	252,468,133	294,071,156
Mortgage and other loans receivable – net	118,540,469	109,797,131
Property, furniture and equipment, less accumulated depreciation and amortization of \$13,543,381 and \$13,738,597	2,909,630	3,196,494
Other assets	3,339,446	4,104,087
Total nonrestricted noncurrent assets	377,257,678	411,168,868
Total nonrestricted assets	\$ 816,853,864	616,312,257

All other assets of the Authority are restricted in nature, either by the requirements of the relevant bond indenture or other agreements or resolutions.

(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%	Thirty to forty years
Rental Housing Bond Group	1.29% to 13.13%	Thirty to forty years
General Purpose Bond Group	0% to 13.97%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to 13.85%	Thirty years

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2005:

Multi-Family Housing, Rental Housing, and General Purpose Bond Groups	\$ 158,268,000
Commonwealth Mortgage Bond Group	<u>330,472,000</u>
Total	<u>\$ 488,740,000</u>

Through June 30, 2005 the Authority conducted various mortgage loan programs financed or supported by unrestricted programs 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 as of June 30, 2005 and 2004 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 (VHF) may not be available for the payment of debt service on any obligations of the Authority. Such loans from unrestricted programs 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.

Beginning in fiscal year 2006, the Authority will implement a new methodology for determining the amount of its net assets that will be used to provide reduced interest rates for Subsidized Mortgage Loans and otherwise subsidize its programs. Such new methodology replaces the above-described determination of a specific dollar amount of mortgage loan funds to be made available under the VHF program, which will not be continued. Under this new methodology, the annual amount of the Authority's net assets to be dedicated, on a present value basis as determined by the Authority, to provide reduced interest rates or other support for Subsidized Mortgage Loans or to otherwise provide housing subsidies under its programs, including bond financed programs, shall be equal to 15% of the average of the Authority's excess revenue (as unadjusted for the effect of GASB 31) for the preceding three fiscal years. The amounts to be made available under this new methodology in the future are subject to review by the Authority of the impact thereof on its financial position. The Authority has financed and expects to finance some, but not all, of such Subsidized Mortgage Loans, in whole or in part, with funds under its various bond resolutions.

(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, 2005 and, 2004, the carrying amount of the Authority's deposits were \$18,570,226 and \$19,953,775 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, were \$30,565,841 and \$18,312,385. The associated bank balance of the Authority's deposits were \$31,663,773 and \$23,185,516 at June 30, 2005 and 2004. 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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005 and 2004.

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, 2005, were as follows:

	Category		Fair
	1	2	value
Repurchase agreements	\$ 397,985,039	12,316,968	410,302,007
Municipal tax-exempt securities	375,000	—	375,000
Total	<u>\$ 398,360,039</u>	<u>12,316,968</u>	410,677,007
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Note			1,586,786
AIG Funding Commercial Paper			29,045,393
Transamerica Life Insurance Investment Agreement			40,000,000
Citigroup Financial Products Investment Agreement			39,998,979
Total cash equivalents			<u>\$ 521,308,165</u>

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

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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005 and 2004 (all of which were classified Category 1) were as follows:

	2005	2004
U.S. Government and agency securities	\$ 65,966,698	88,417,121
Corporate notes	117,164,748	87,743,694
Municipal tax-exempt securities	28,778,263	30,331,918
Asset backed securities	237,465,415	286,758,280
Agency mortgage backed	55,682,361	100,966,081
Totals	505,057,485	594,217,094
Add amounts not categorized because securities are not used as evidence of the investments:		
Citigroup Financial Products Investment Agreement	120,000,000	—
Federal Home Loan Bank Note	326,595,000	139,670,000
Transamerica Occidental Life Investment Agreement	120,000,000	80,000,000
Total investments	\$ 1,071,652,485	813,887,094
June 30,		
	2005	2004
Current investments	\$ 625,079,943	301,672,646
Noncurrent investments	446,572,542	512,214,448
Total investments	\$ 1,071,652,485	813,887,094

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.

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

No more than 5% of the Authority's total assets will be invested in any one entity, exclusive of overnight repurchase agreements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

As of June 30, 2005, the Authority had the following investments and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Corporate notes	\$ 36,093,982	4,989,850	880,916	75,200,000	117,164,748
Municipal securities	6,871,699	21,906,564	—	—	28,778,263
Asset-backed securities	—	237,465,415	—	—	237,465,415
Agency mortgage-backed	—	33,608,363	—	22,073,998	55,682,361
Guaranteed investment contracts	240,000,000	—	—	—	240,000,000
U.S. Government and agency securities	15,519,262	49,360,612	—	1,086,824	65,966,698
Other FHLB interest bearing	326,595,000	—	—	—	326,595,000
Total investments	<u>\$ 625,079,943</u>	<u>347,330,804</u>	<u>880,916</u>	<u>98,360,822</u>	<u>1,071,652,485</u>

(6) Property, Furniture and Equipment

Activity in the property, furniture, and equipment accounts for the fiscal year 2005 was as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,644,401	448,643	(945,515)	14,147,529
Motor vehicles	345,595	15,388	—	360,983
	<u>\$ 36,041,484</u>	<u>464,031</u>	<u>(945,515)</u>	<u>35,560,000</u>

Activity in the related accumulated depreciation accounts during fiscal year 2005 was as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Building	\$ (9,156,523)	(666,836)	—	(9,823,359)
Furniture and equipment	(13,473,622)	(715,003)	943,840	(13,244,785)
Motor vehicles	(264,974)	(33,622)	—	(298,596)
	<u>\$ (22,895,119)</u>	<u>(1,415,461)</u>	<u>943,840</u>	<u>(23,366,740)</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Activity in the property, furniture, and equipment accounts for the fiscal year 2004 was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
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	312,993	32,602	—	345,595
	\$ 35,775,977	781,278	(515,771)	36,041,484

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)
	\$ (21,566,269)	(1,844,500)	515,650	(22,895,119)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2005 and 2004, and changes for the period were as follows:

<u>Description</u>	<u>Balance at June 30, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2005</u>
		(Amounts shown in thousands)		
General operating accounts:				
Notes:				
Federal Home Loan Bank, floating rate (weighted average rate of 3.35% at June 30, 2005), no fixed maturity	\$ 139,670	200,050	13,125	326,595
Total general operating accounts	<u>139,670</u>			<u>326,595</u>
Multi-Family Housing Bond Group:				
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	13,865	—	2,990	10,875
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	2,790	—	2,790	—
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	3,675	—	2,500	1,175
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	7,540	—	7,540	—
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	16,290	—	16,035	255
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	9,825	—	9,825	—
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	3,415	—	1,305	2,110

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	\$ 12,070	—	12,070	—
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	44,740	—	27,375	17,365
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	5,740	—	365	5,375
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	21,300	—	1,325	19,975
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	46,965	—	2,725	44,240
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	25,295	—	1,460	23,835
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,450	—	245	4,205
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	26,020	—	1,620	24,400
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	16,610	—	885	15,725
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	14,880	—	685	14,195
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	19,500	—	925	18,575

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	\$ 42,475	—	1,905	40,570
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	47,335	—	1,790	45,545
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,395	—	320	6,075
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	48,255	—	2,150	46,105
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	45,340	—	1,730	43,610
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, rate, final due date November 1, 2018	48,935	—	2,305	46,630
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	28,600	—	1,195	27,405
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	41,975	—	2,050	39,925
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	32,080	—	1,335	30,745
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	31,255	—	1,385	29,870

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	\$ 67,985	—	2,980	65,005
	735,600	—	111,810	623,790
Unamortized premium	2,625			2,634
Total Multi-Family Housing Bonds	738,225			626,424
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	43,990	—	1,505	42,485
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	52,490	—	1,495	50,995
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	35,195	—	1,010	34,185
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	34,215	—	1,020	33,195
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	60,775	—	1,405	59,370
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	16,555	—	395	16,160
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	43,885	—	1,295	42,590
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	62,545	—	1,520	61,025
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	60,485	—	1,385	59,100

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	\$ 14,020	—	430	13,590
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	20,535	—	645	19,890
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	48,900	—	1,180	47,720
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	62,750	—	1,660	61,090
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	42,465	—	895	41,570
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	37,130	—	955	36,175
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	24,105	—	580	23,525
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	44,200	—	1,170	43,030
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	63,385	—	660	62,725
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	77,315	—	1,315	76,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	57,750	—	1,655	56,095
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	63,675	—	1,010	62,665
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	83,775	—	2,030	81,745

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

<u>Description</u>	<u>Balance at June 30, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2005</u>
		(Amounts shown in thousands)		
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	\$ 52,110	—	250	51,860
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	17,205	—	—	17,205
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	75,895	—	1,000	74,895
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	54,295	—	640	53,655
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	—	56,230	—	56,230
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	—	39,355	—	39,355
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	—	41,680	—	41,680
2005 Series BC, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	—	65,245	—	65,245
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	—	42,065	—	42,065
2005 Series EF, dated June 14, 2005, 3.90% effective interest rate, final due date September 1, 2039	—	74,120	—	74,120
	<u>1,249,645</u>	<u>318,695</u>	<u>27,105</u>	<u>1,541,235</u>
Unamortized premium	<u>751</u>			<u>379</u>
Total Rental Housing Bonds	<u>1,250,396</u>			<u>1,541,614</u>
VHDA General Purpose Bonds:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	87,060	—	3,245	83,815

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

<u>Description</u>	<u>Balance at June 30, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2005</u>
		(Amounts shown in thousands)		
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	\$ 261,580	—	2,330	259,250
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	88,160	—	1,200	86,960
2003 Series V, dated June 26, 2003, 4.52% effective interest rate, final due date October 1, 2029	52,440	—	2,520	49,920
	<u>518,325</u>	—	9,295	509,030
Unamortized discount	<u>(3,555)</u>			<u>(2,066)</u>
Total General Purpose Bonds	<u>514,770</u>			<u>506,964</u>
Commonwealth Mortgage Bonds:				
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	69,845	—	23,725	46,120
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, 1996, date January 1, 2022	22,985	—	22,985	—
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	33,425	—	33,425	—
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	63,850	—	63,850	—
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	55,145	—	55,145	—
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	18,625	—	7,933	10,692

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	\$ 19,909	—	8,126	11,783
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	98,170	—	10,255	87,915
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	26,675	—	10,126	16,549
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	30,852	—	12,929	17,923
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	254,620	—	90,935	163,685
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	37,234	—	12,835	24,399
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	94,149	—	27,705	66,444
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	42,103	—	17,332	24,771
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	6,495	—	3,874	2,621
2002 Series E/F/G, dated December 17, 2002, 5.00% effective interest rate, final due date December 25, 2032	93,713	—	24,235	69,478
2003 Series A/B, dated April 3, 2003, 4.28% effective interest rate, final due date April 1, 2027	172,920	—	7,780	165,140

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2003 Series C, dated October 1, 2003, 5.00% effective interest rate, final due date August 25, 2033	\$ 7,186	—	2,404	4,782
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2035	180,000	—	720	179,280
2004 Series B, dated June 10, 2004, 5.5% effective interest rate, final due date June 25, 2034	20,588	—	4,738	15,850
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	—	170,000	—	170,000
2005 Series AB, dated April 21, 2005, 3.59% effective interest rate, final due date July 1, 2042	—	511,120	—	511,120
	<u>1,711,489</u>	<u>681,120</u>	<u>441,057</u>	<u>1,951,552</u>
Unamortized (discount) premium	<u>(3,083)</u>			<u>632</u>
Total Commonwealth Mortgage Bonds	<u>1,708,406</u>			<u>1,952,184</u>
Total	<u>\$ 4,351,467</u>			<u>4,953,781</u>

Notes and bonds payable at June 30, 2004 and 2003, and changes for the period were as follows (amounts in thousands):

	June 30, 2003	Issued	Retired	Change in unamortized premium discount and compound interest payable	June 30, 2004
General operating accounts	\$ 8,535	182,206	51,071	—	139,670
Multi-Family Housing Bonds	918,692	—	182,679	2,212	738,225
Rental Housing Bonds	916,549	346,955	17,460	4,352	1,250,396
General Purpose Bonds	426,096	117,370	28,890	194	514,770
Commonwealth Mortgage Bonds	<u>2,489,316</u>	<u>210,644</u>	<u>996,264</u>	<u>4,710</u>	<u>1,708,406</u>
Total	<u>\$ 4,759,188</u>	<u>857,175</u>	<u>1,276,364</u>	<u>11,468</u>	<u>4,351,467</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

	June 30,	
	<u>2005</u>	<u>2004</u>
	(amounts shown in thousands)	
Notes and bonds payable – current	\$ 522,980	406,433
Bonds payable – noncurrent	<u>4,430,801</u>	<u>3,945,034</u>
Total	<u>\$ 4,953,781</u>	<u>4,351,467</u>

The Authority has the option to redeem the various bonds at premiums ranging up to 3%. 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 premium and including special and optional redemptions that occurred subsequent to year end) commencing July 1, 2005 and thereafter are as follows:

	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
Period ending June 30:			
2006	\$ 522,980,000	231,319,302	754,299,302
2007	144,745,000	226,821,042	371,566,042
2008	172,490,000	219,461,791	391,951,791
2009	189,640,000	211,891,184	401,531,184
2010	195,445,000	203,440,518	398,885,518
2011 – 2015	957,245,000	876,953,378	1,834,198,378
2016 – 2020	860,955,000	634,453,758	1,495,408,758
2021 – 2025	671,830,000	423,740,052	1,095,570,052
2026 – 2030	490,737,264	253,054,212	743,791,476
2031 – 2035	455,885,098	114,749,040	570,634,138
2036 – 2040	164,790,000	43,085,335	207,875,335
2041 – 2045	109,660,000	12,788,305	122,448,305
2046 – 2050	15,800,000	199,931	15,999,931
	<u>\$ 4,952,202,362</u>	<u>3,451,957,848</u>	<u>8,404,160,210</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004, these escrows and project reserves were presented in the Authority's Statement of Net Assets as follows:

	June 30,	
	2005	2004
Escrows – current	\$ 26,255,514	25,185,432
Project reserves – noncurrent	159,409,620	157,372,369
Totals	\$ 185,665,134	182,557,801

(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 legislations. 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 \$1,860,897 and \$2,513,073 at June 30, 2005 and 2004, respectively.

(10) Risk Management

The Authority manages its interest rate 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, 2005 and 2004, the authority experienced a net loss of \$2,142,074 and a net gain of \$2,463,723, respectively, from hedging transactions settled during the year. At June 30, 2005, \$12,316,968 of short sales was outstanding which had an unrealized loss of \$102,610. 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005 and 2004, such designations included funding for the Virginia Housing Fund, funds to be available for other loans and loan commitments; over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single family and multi-family loans; self-insurance on the liability exposure of Commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single family loan prepayment shortfalls and other risks and contingencies.

(12) Employee Benefits Plans

The Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2005 and 2004 was \$1,453,215 and \$1,391,207, respectively

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

As of June 30, 2005 and 2004, included in accounts payable and other liabilities is an employee compensated absences accrual of \$2,796,921 and \$2,866,993, 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 \$6,003,160 and \$5,141,028 as of June 30, 2005 and 2004 respectively, (see note 13). Total expense incurred for these benefits for the years ended June 30, 2005 and 2004 was \$603,138, and \$593,629, respectively.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the period ending June 30, 2005 was as follows:

	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at June 30, 2005</u>
Project reserves	\$ 157,372,369	45,210,555	43,173,304	159,409,620
Commonwealth Priority Housing				
Fund liability	18,931,818	525,915	1,472,101	17,985,632
Other liabilities	9,797,546	2,062,124	1,312,113	10,547,557
Compensated absences payable	2,866,993	1,527,436	1,597,508	2,796,921
Retiree healthcare	5,141,028	1,091,736	229,604	6,003,160
Total	<u>\$ 194,109,754</u>	<u>50,417,766</u>	<u>47,784,630</u>	<u>196,742,890</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for period ending June 30, 2004, was as follows:

	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at June 30, 2004</u>
Project reserves	\$ 148,968,456	37,874,445	29,470,532	157,372,369
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>\$ 194,545,399</u>	<u>42,523,913</u>	<u>42,959,558</u>	<u>194,109,754</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.

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, 2005, 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2005 and 2004

(15) Subsequent Events

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2005 as follows:

Multi-Family Housing Bonds	July 1, 2005	\$	6,130,000
Commonwealth Mortgage Bonds	July 1, 2005		46,120,000
Commonwealth Mortgage Bonds	September 1, 2005		90,365,000
Rental Housing Bonds	September 1, 2005		29,000,000

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2005

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	\$ 85,398,063	52,113,321	96,345,975	24,791,099	281,229,933	539,878,391
Investments	359,879,268	6,426,875	18,773,800	—	240,000,000	625,079,943
Interest receivable – investments	1,109,643	672,928	210,511	22,371	1,510,386	3,525,839
Mortgage and other loans receivable	2,928,030	16,045,390	20,001,829	17,541,232	37,765,921	94,282,402
Interest receivable – mortgage and other loans	980,882	4,784,671	8,081,117	2,959,008	7,521,587	24,327,265
Other real estate owned	359,431	—	2,238,754	170,562	783,720	3,552,467
Other assets	2,385,374	—	—	2,001,039	98,399	4,484,812
Total current assets	<u>453,040,691</u>	<u>80,043,185</u>	<u>145,651,986</u>	<u>47,485,311</u>	<u>568,909,946</u>	<u>1,295,131,119</u>
Noncurrent assets:						
Investments	265,679,131	69,380,872	102,830,946	6,742,516	1,939,077	446,572,542
Mortgage and other loans receivable	126,192,888	766,507,647	1,384,793,229	510,693,698	2,468,475,368	5,256,662,830
Less allowance for loan loss	1,879,482	4,171,220	10,212,268	4,331,115	11,946,140	32,540,225
Less net deferred loan fees	206,769	11,199,863	21,803,550	6,451,396	8,106,357	47,767,935
Mortgage and other loans receivable – net	<u>124,106,637</u>	<u>751,136,564</u>	<u>1,352,777,411</u>	<u>499,911,187</u>	<u>2,448,422,871</u>	<u>5,176,354,670</u>
Investment in rental property – net	—	—	16,505,724	3,214,692	—	19,720,416
Property, furniture, and equipment, less accumulated depreciation and amortization of \$23,366,740	2,910,227	—	—	9,283,033	—	12,193,260
Unamortized bond issuance expenses	—	1,213,869	1,898,779	1,947,773	830,242	5,890,663
Interfund receivable	(30,690,308)	4,171,220	10,212,268	4,360,680	11,946,140	—
Other assets	3,190,624	—	—	—	1,345,237	4,535,861
Total noncurrent assets	<u>365,196,311</u>	<u>825,902,525</u>	<u>1,484,225,128</u>	<u>525,459,881</u>	<u>2,464,483,567</u>	<u>5,665,267,412</u>
Total assets	<u>\$ 818,237,002</u>	<u>905,945,710</u>	<u>1,629,877,114</u>	<u>572,945,192</u>	<u>3,033,393,513</u>	<u>6,960,398,531</u>

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2005

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:						
Notes and bonds payable	\$ 326,595,000	45,215,000	62,610,000	10,130,000	78,430,000	522,980,000
Accrued interest payable on notes and bonds	821,659	6,346,482	22,015,696	10,063,593	25,152,542	64,399,972
Housing Choice Voucher contributions payable	3,207,898	—	—	—	—	3,207,898
Escrows	26,255,514	—	—	—	—	26,255,514
Accounts payable and other liabilities	20,537,018	144,085	540,149	3,465,243	22,169,592	46,856,087
Total current liabilities	<u>377,417,089</u>	<u>51,705,567</u>	<u>85,165,845</u>	<u>23,658,836</u>	<u>125,752,134</u>	<u>663,699,471</u>
Noncurrent liabilities:						
Bonds payable – net	—	581,208,910	1,479,003,887	496,834,497	1,873,754,434	4,430,801,728
Project reserves	159,409,620	—	—	—	—	159,409,620
Other liabilities	35,600,809	1,558,883	115,761	57,817	—	37,333,270
Total noncurrent liabilities	<u>195,010,429</u>	<u>582,767,793</u>	<u>1,479,119,648</u>	<u>496,892,314</u>	<u>1,873,754,434</u>	<u>4,627,544,618</u>
Total liabilities	<u>572,427,518</u>	<u>634,473,360</u>	<u>1,564,285,493</u>	<u>520,551,150</u>	<u>1,999,506,568</u>	<u>5,291,244,089</u>
Net assets:						
Invested in capital assets, net of related debt	2,910,227	—	(3,909,934)	(9,932,650)	—	(10,932,357)
Restricted by bond indentures	—	271,472,350	69,501,555	62,326,692	1,033,886,945	1,437,187,542
Unrestricted	242,899,257	—	—	—	—	242,899,257
Total net assets	<u>245,809,484</u>	<u>271,472,350</u>	<u>65,591,621</u>	<u>52,394,042</u>	<u>1,033,886,945</u>	<u>1,669,154,442</u>
Total liabilities and net assets	<u>\$ 818,237,002</u>	<u>905,945,710</u>	<u>1,629,877,114</u>	<u>572,945,192</u>	<u>3,033,393,513</u>	<u>6,960,398,531</u>

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2005

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	\$ 5,960,776	68,151,453	92,219,573	38,589,987	157,715,685	362,637,474
Pass-through grants received	122,856,397	—	—	—	—	122,856,397
Housing Choice Voucher fee income	7,520,382	—	—	—	—	7,520,382
Gains and recoveries on sale of other real estate owned	10,986	—	—	22,491	193,580	227,057
Other	5,307,250	—	1,760,528	2,119,063	—	9,186,841
Total operating revenues	<u>141,655,791</u>	<u>68,151,453</u>	<u>93,980,101</u>	<u>40,731,541</u>	<u>157,909,265</u>	<u>502,428,151</u>
Operating expenses:						
Interest on notes and bonds	5,988,894	44,285,263	77,868,876	25,350,090	78,787,820	232,280,943
Salaries and related employee benefits	25,696,975	—	—	—	—	25,696,975
General operating expenses	9,862,148	5,807	890,942	1,474,293	—	12,233,190
Note and bond expenses	465,915	—	—	—	—	465,915
Amortization of bond issuance expenses	—	319,065	80,035	55,541	279,477	734,118
Pass-through grants disbursed	122,856,397	—	—	—	—	122,856,397
Housing Choice Voucher program expenses	5,582,860	—	—	—	—	5,582,860
External mortgage servicing expenses	27,683	—	—	9,099	2,797,046	2,833,828
Losses and expenses on other real estate owned	79,444	—	—	38,618	627,438	745,500
Total operating expenses	<u>170,560,316</u>	<u>44,610,135</u>	<u>78,839,853</u>	<u>26,927,641</u>	<u>82,491,781</u>	<u>403,429,726</u>
Operating income (expense)	<u>(28,904,525)</u>	<u>23,541,318</u>	<u>15,140,248</u>	<u>13,803,900</u>	<u>75,417,484</u>	<u>98,998,425</u>
Nonoperating revenues:						
Investment income	11,183,771	4,535,355	3,779,402	1,225,891	6,392,659	27,117,078
Other, net	163,478	—	—	—	—	163,478
Total nonoperating revenues	<u>11,347,249</u>	<u>4,535,355</u>	<u>3,779,402</u>	<u>1,225,891</u>	<u>6,392,659</u>	<u>27,280,556</u>
Income (loss) before transfers	<u>(17,557,276)</u>	<u>28,076,673</u>	<u>18,919,650</u>	<u>15,029,791</u>	<u>81,810,143</u>	<u>126,278,981</u>
Transfers between funds	15,577,763	(40,662,792)	15,827,865	734,966	8,522,198	—
Change in net assets	<u>(1,979,513)</u>	<u>(12,586,119)</u>	<u>34,747,515</u>	<u>15,764,757</u>	<u>90,332,341</u>	<u>126,278,981</u>
Total net assets, beginning of year	<u>247,788,997</u>	<u>284,058,469</u>	<u>30,844,106</u>	<u>36,629,285</u>	<u>943,554,604</u>	<u>1,542,875,461</u>
Total net assets, end of year	<u>\$ 245,809,484</u>	<u>271,472,350</u>	<u>65,591,621</u>	<u>52,394,042</u>	<u>1,033,886,945</u>	<u>1,669,154,442</u>

See accompanying independent auditors' report.

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	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>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>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>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>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	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
Escrows	25,185,432	—	—	—	—	25,185,432
Accounts payable and other liabilities	12,004,571	115,036	525,149	1,633,511	13,826,745	28,105,012
Total current liabilities	<u>176,972,146</u>	<u>48,761,754</u>	<u>47,629,614</u>	<u>21,063,684</u>	<u>228,553,160</u>	<u>522,980,358</u>
Noncurrent liabilities:						
Bonds payable, net	—	697,129,651	1,223,291,529	505,474,805	1,519,138,174	3,945,034,159
Project reserves	157,372,369	—	—	—	—	157,372,369
Other liabilities	34,729,749	1,718,547	241,989	47,100	—	36,737,385
Total noncurrent liabilities	<u>192,102,118</u>	<u>698,848,198</u>	<u>1,223,533,518</u>	<u>505,521,905</u>	<u>1,519,138,174</u>	<u>4,139,143,913</u>
Total liabilities	<u>369,074,264</u>	<u>747,609,952</u>	<u>1,271,163,132</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>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>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	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	10,580,747	313,500	234,726	938,348	—	12,067,321
Note and bond expenses	419,610	—	—	—	—	419,610
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 expenses	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.

**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, 2005, and have issued our report thereon dated September 23, 2005. 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.

September 23, 2005