VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2006 and 2005

Management of the Virginia Housing Development Authority (the Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the fiscal years ended June 30, 2006 and 2005. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

Organization Overview

The Virginia Housing Development Authority (the Authority) is a political subdivision of the Commonwealth of Virginia, created under the Virginia Housing Development Authority Act (the Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation and ownership of affordable housing for home ownership or occupancy by low or moderate income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax exempt and taxable notes and bonds to investors. Such notes, bonds, and other indebtedness are not obligations of the Commonwealth of Virginia (the Commonwealth) and the Commonwealth is not liable for repayments of such obligations. The Authority is self-supporting and does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income from bond proceeds and earnings accumulated since inception.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Federal Housing Choice Voucher program, which provides rental subsidies from federal funds and the Federal Low Income Housing Tax Credit program, which awards federal income tax credits for the purpose of developing low-income, multi-family housing projects. In addition to its regular programs, the Authority administers its Resources Enabling Affordable Community Housing (REACH Virginia) program, which finances the most critical housing initiatives requiring lower cost funds than the Authority's regular programs. REACH Virginia is designed to serve the elderly, disabled, homeless, and other low-income persons.

Financial Statements

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the accompanying notes.

The Statement of Net Assets reports all of the Authority's assets and liabilities, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and liabilities is presented as net assets, and is displayed in three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets identifies all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. 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 mortgage loans, externally funded programs and other revenue sources.

The Statement of Cash Flows provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. This statement provides information regarding the sources and uses of cash and the change in cash during the reporting period.

The Notes to Financial Statements provide additional information that is essential for understanding financial data that may not be displayed on the face of the financial statements and as such, is an integral part of the Authority's basic financial statements.

Financial Highlights

Fiscal Year 2006

Single-family loan originations totaled 7,693 in fiscal year (FY) 2006, representing a growth rate of 35% over FY 2005. The strong number of mortgage loans can be attributed to a wider array of products and programs made available to meet customers' individual needs and market demands for low interest rate mortgage loans.

As of June 30, 2006, the Authority serviced 38,056 first and second single-family mortgage loans with outstanding balances totaling $3.3 billion. The number of loans serviced, net of repayments, increased 2,329 or 6.5% over the prior year while the net mortgage loans outstanding increased $656 million, or 24.8%. Repayments of single-family loans totaled 6,776 during FY 2006, representing 1,477 fewer repayments compared to FY 2005. Overall delinquency rates on the portfolio of first mortgage loans were 4.12% as of June 30, 2006, a decrease of 0.72% from the prior year.

Funds committed for multi-family development projects in FY 2006 dropped to 77, down from 90 in FY 2005, or a decrease of 14%. Total units committed decreased from 6,313 in FY 2005 to 4,415 in FY 2006. The 30% reduction reflects, in part, the diminishing number of properties properly zoned for rental housing development.

As of June 30, 2006, the Authority serviced 1,283 multi-family mortgage loans with outstanding balances totaling $2.9 billion. The number of loans serviced, net of loan repayments increased 81 or 6.7% over the prior year while the net loan balances outstanding increased $131 million, or 4.8%. Overall delinquency rates on the portfolio were 0.59% as of June 30, 2006, a decrease of 0.13% compared to June 30, 2005.

Fiscal Year 2005

Single-family loan originations totaled 5,684 in FY 2005, representing a growth rate of 22% over FY 2004. The new 1st Choice product and the restructured FHA Plus product, each principally funded by tax-exempt bonds, contributed to the growth rate.

As of June 30, 2005, the Authority serviced 35,727 first and second single-family mortgage loans with outstanding balances totaling $2.6 billion. The number of loans serviced, net of repayments, decreased 1,653, or 4.4% over the prior year while the net mortgage loans outstanding increased $119 million, or 4.7%, reflecting an increase in average loan value of $20,000 for new loans added to the portfolio. The reduced volume of loans serviced together with repayments of 8,253 single-family loans during FY 2005 reflected a continuation of the housing industry's refinancing boom in recent years. Refinancing trends, however, slowed substantially in FY 2005 as the volume of loan payoffs decreased by 4,598 from FY 2004. Overall delinquency rates on the portfolio of first mortgage loans were 4.84% as of June 30, 2005, a decrease of 0.45% from June 30, 2004.

(Continued)

Multi-family loan production was stable year over year, with 90 development projects committed in FY 2005 versus 88 in FY 2004. A total of 6,313 multi-family housing units were placed into production in 2005, or a 14% decrease from the prior year.

As of June 30, 2005, the Authority serviced 1,202 multi-family mortgage loans with outstanding balances of $2.7 billion. The number of loans serviced, net of repayments, increased by 87, or 7.8% over the prior year, while the net loan balances outstanding increased $169 million, or 6.6%. Overall delinquency rates on the portfolio were 0.72% as of June 30, 2005, a decrease of 1.29% from June 2004.

Financial Analysis of the Authority

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service reserve funds required by bond indenture, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family projects, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 projects, and other funds held in a fiduciary capacity to support other housing initiatives.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring credit worthiness of the banks where monies are deposited and making nonspeculative investments. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal asset. Mortgage loans are financed through a combination of proceeds of notes and bonds and net assets accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds.

The largest component of the Authority's liabilities are outstanding bonds payable, the majority of which is fixed-rate to maturity dates that may extend into the future as much as 40 years. The Authority continues to maintain long term issuer credit ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services for its comprehensive bond portfolio. Ratings on the Authority's Commonwealth Mortgage Bonds, used to finance single-family mortgage loans, are Aaa and AAA, from Moody's, Investors Services and Standard & Poor's Rating Services, respectively.

Net assets are comprised of capital assets, net of related debt, and restricted and unrestricted net assets. Capital assets, net of related debt represents an office building, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. Restricted net assets represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. Unrestricted net assets represent a portion of net assets that have been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher Program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

(Continued)

Condensed Statement of Net Assets

(In millions)

		Year ending June 30	
		2006	**2005**
Cash and cash equivalents	$	707.5	539.9
Investments		429.0	1,071.7
Mortgage and other loans receivable, net		6,066.2	5,270.6
Other assets		100.9	78.2
Total assets		7,303.6	6,960.4
Notes and bonds payable, net		5,162.2	4,953.8
Other liabilities		326.2	337.4
Total liabilities		5,488.4	5,291.2
Invested in capital assets, net of related debt		(3.5)	(10.9)
Restricted by bond indentures		1,567.2	1,437.2
Unrestricted		251.5	242.9
Net assets	$	1,815.2	1,669.2

June 30, 2006 Compared to June 30, 2005

Total assets increased $343.2 million, or 4.9% from the prior year. Cash, cash equivalents and investments, combined, decreased $475.1 million, or 29.5% from the prior year. The decrease in funds available for investment reflects a pay-off of notes to the Federal Home Loan Bank of Atlanta and an increase in mortgage loans. Mortgage and other loans receivables increased by $795.6 million as a result of strong single-family loan originations and a decreased level of mortgage loan prepayments.

Total liabilities increased $197.1 million, or 3.7% from the prior year due to additional sales of bonds. The Authority issued $114.1 million and $689.7 million in tax-exempt and taxable single-family mortgage bonds, respectively, and $116.3 million and $67.0 million in tax-exempt and taxable multi-family revenue bonds, respectively, during FY 2006. Bond proceeds were the principal source of funding for the high volume of mortgage loan originations.

Total assets exceeded total liabilities by $1,815.2 million, thereby increasing net assets $146 million, or 8.7% from the prior year. As of June 30, 2006, net assets invested in capital assets, net of related debt consisted of $30.5 million in investments in rental property, net of depreciation and amortization, and $16.1 million in property, furniture, and equipment, net of depreciation and amortization less related bonds payable of $50.1 million.

June 30, 2005 Compared to June 30, 2004

Total assets increased $755.4 million, or 12.2% from the prior year. Cash, cash equivalents, and investments, combined, increased $423.2 million, or 35.6% from the prior year. Mortgage and other loans receivables increased by $333.8 million as a result of a high volume of single-family loan originations and a decreased level of mortgage loan prepayments.

Total liabilities increased $629.1 million, or 13.5% from the prior year due to increased loan origination activity. The Authority issued $681.1 million in tax-exempt single-family mortgage bonds plus $162.8 million and $155.9 million of tax-exempt and taxable multi-family bonds, respectively, during FY 2005. Bond proceeds were the principal source of funding for the high volume of mortgage loan originations.

Total assets exceeded total liabilities by $1,669.2 million, thereby increasing net assets $126.3 million, or 8.2% from the prior year. As of June 30, 2005, net assets invested in capital assets, net of related debt consisted of $19.7 million in investments in rental property, net of depreciation and amortization and $12.2 million in property, furniture, and equipment, net of depreciation and amortization less related bonds payable of $42.8 million.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(In millions)

		Year ending June 30	
		2006	**2005**
Operating revenues:			
Interest on mortgage and other loans	$	389.4	362.6
Pass-through grants received		71.6	71.8
Housing Choice Voucher program income		66.2	58.6
Other operating revenues		13.6	9.4
Total operating revenues		540.8	502.4
Operating expenses:			
Interest on notes and bonds		260.1	232.3
Pass-through grants disbursed		71.6	71.8
Housing Choice Voucher program expense		54.4	56.7
Other operating expenses		53.6	42.6
Total operating expenses		439.7	403.4
Operating income		101.1	99.0
Nonoperating revenues:			
Investment income*		44.9	27.1
Other non-operating revenue		0.1	0.2
Total nonoperating revenue		45.0	27.3
Change in net assets	$	146.1	126.3

(Continued)

The principal determinates of the Authority's change in net assets (more commonly referred to as net income) are operating revenues less operating expenses plus nonoperating revenues.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominately of interest expense on notes and bonds payable and operating expenses of the Authority. Non-operating revenues consist primarily of investment earnings as well as realized and unrealized gains or losses on the sale of investments.

Included in investment income is a downward fair market value adjustment totaling $4.6 million and $0.5 million for the years ended June 30, 2006 and 2005, respectively.

Fiscal Year 2006

Operating revenues increased $38.4 million, or 7.6% from the prior year, the majority of which is attributable to interest earnings. Interest earnings on mortgage and other loan receivables increased $26.8 million due to growth in the volume of mortgage loans serviced during the year and a reduction in mortgage prepayments as compared to previous years.

Operating expenses increased $36.3 million, or 9.0% from the prior year, attributable primarily to interest due on notes and bonds payable. Interest expense increased $27.8 million, or 12.0% from the prior year due to the high level of outstanding notes and bonds payable. Other operating expenses, consisting largely of administrative costs, increased $11.0 million, or 25.8% from the prior year primarily due to a $7.7 million increase in the provision for loan losses resulting from a larger mortgage loan portfolio.

Nonoperating revenues increased $17.7 million, or 64.8% from the prior year, due to increased earnings from investments during the year attributable to a generally higher interest rate environment.

Fiscal Year 2005

Operating revenues decreased slightly by $5.7 million, or 1.1% from the prior year, due to a reduction in mortgage loan portfolio resulting from above average single-family loan prepayments and a lower rate of interest earnings on mortgage loans during FY 2005 compared to FY 2004.

Operating expenses decreased $13.7 million, or 3.3% from the prior year, attributable primarily to lower interest expense on notes and bonds payable. Interest expense decreased $12.5 million, or 5.1% from the prior year as a result of repaying higher cost bonds and replacing them with lower cost bond issues. Other operating expenses, consisting largely of administrative costs remained stable year over year, decreasing slightly by $1.1 million, or 0.7% from the prior year.

Nonoperating revenues more than tripled over FY 2005 due to a surge in investment earnings during the year caused by a higher interest rate environment.

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Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products 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. Short-term investment rates in the United States during fiscal year 2004 dropped to historically low levels before beginning to rise in FY 2005 and further increasing in FY 2006. As of June 30, 2006, the spread between long-term conventional single-family mortgage loan financing and the interest rates on long term, fixed-rated tax-exempt bonds had grown from an average of 50 basis points to approximately 100 basis points.

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

The 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, 2006 and 2005, 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, 2006 and 2005, and the respective changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(n) to the basic financial statements, the Authority changed its method of accounting for Housing Assistance Payments during the year ended June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 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. 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 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

September 22, 2006

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Net Assets

June 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents (note 5)	$ 707,489,838	539,878,391
Investments (note 5)	99,569,288	625,079,943
Interest receivable – investments	3,982,147	3,525,839
Mortgage and other loans receivable (note 4)	102,359,562	94,282,402
Interest receivable – mortgage and other loans	25,052,437	24,327,265
Other real estate owned	6,694,242	3,552,467
Housing Choice Voucher contributions receivable (note 1)	105,359	—
Other assets	8,617,378	4,484,812
Total current assets	953,870,251	1,295,131,119
Noncurrent assets:		
Investments (note 5)	329,413,357	446,572,542
Mortgage and other loans receivable (note 4):	6,039,549,579	5,256,662,830
Less allowance for loan losses	40,253,580	32,540,225
Less net deferred loan fees	35,459,452	47,767,935
Mortgage and other loans receivable, net	5,963,836,547	5,176,354,670
Investment in rental property, net	30,474,952	19,720,416
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,423,088 and $23,366,740 (note 6)	16,148,813	12,193,260
Unamortized bond issuance expenses	6,103,711	5,890,663
Other assets	3,779,760	4,535,861
Total noncurrent assets	6,349,757,140	5,665,267,412
Total assets	$ 7,303,627,391	6,960,398,531
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	$ 395,628,673	522,980,000
Accrued interest payable on notes and bonds	73,401,206	64,399,972
Housing Choice Voucher contributions payable (note 1)	—	3,207,898
Escrows (note 8)	28,938,071	26,255,514
Accounts payable and other liabilities (notes 5, 9, and 12)	31,340,570	46,856,087
Total current liabilities	529,308,520	663,699,471
Noncurrent liabilities:		
Bonds payable, net (note 7)	4,766,606,315	4,430,801,728
Project reserves (notes 8 and 13)	163,034,955	159,409,620
Other liabilities (notes 5, 9, 12, and 13)	29,423,339	37,333,270
Total noncurrent liabilities	4,959,064,609	4,627,544,618
Total liabilities	5,488,373,129	5,291,244,089
Net assets (note 11):		
Invested in capital assets, net of related debt	(3,474,606)	(10,932,357)
Restricted by bond indentures	1,567,189,542	1,437,187,542
Unrestricted	251,539,326	242,899,257
Total net assets	1,815,254,262	1,669,154,442
Total liabilities and net assets	$ 7,303,627,391	6,960,398,531

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Interest on mortgage and other loans	$ 389,391,936	362,637,474
Pass-through grants received	71,643,263	71,782,931
Housing Choice Voucher program income (note 1)	66,204,626	58,593,848
Gains and recoveries on sale of other real estate owned	127,960	227,057
Other	13,436,948	9,186,841
Total operating revenues	540,804,733	502,428,151
Operating expenses:		
Interest on notes and bonds	260,081,437	232,280,943
Salaries and related employee benefits (note 12)	27,629,273	25,696,975
General operating expenses	14,052,570	12,233,190
Note and bond expenses	287,152	465,915
Amortization of bond issuance expenses	591,917	734,118
Pass-through grants disbursed	71,643,263	71,782,931
Housing Choice Voucher program expenses (note 1)	54,449,974	56,656,326
External mortgage servicing expenses	2,944,906	2,833,828
Losses and expenses on other real estate owned	343,890	745,500
Provision for loan losses	7,713,355	—
Total operating expenses	439,737,737	403,429,726
Operating income	101,066,996	98,998,425
Nonoperating revenues:		
Investment income (note 9)	44,907,251	27,117,078
Other, net	125,573	163,478
Total nonoperating revenues	45,032,824	27,280,556
Change in net assets	146,099,820	126,278,981
Total net assets, beginning of year	1,669,154,442	1,542,875,461
Total net assets, end of year	$ 1,815,254,262	1,669,154,442

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (1,423,768,793)	(1,021,247,650)
Principal repayments on mortgage and other loans	613,957,066	702,983,006
Interest received on mortgage and other loans	380,389,193	356,945,456
Pass-through grants received	71,643,263	72,195,324
Pass-through grants disbursed	(71,675,078)	(72,329,494)
Housing Choice Voucher payments received	62,937,813	63,217,131
Housing Choice Voucher payments disbursed	(54,449,974)	(57,658,991)
Escrow and project reserve payments received	176,095,217	163,805,073
Escrow and project reserve payments disbursed	(169,398,210)	(160,377,951)
Other operating revenues	7,851,053	7,691,367
Cash received for loan origination fees	8,194,746	8,182,888
Cash paid for loan origination fees	(15,773,809)	(8,415,351)
Cash payments for salaries and related benefits	(26,684,637)	(24,723,397)
Cash payments for general operating expenses	(27,794,688)	(2,773,310)
Cash payments for mortgage servicing expenses	(1,586,050)	(1,501,005)
Proceeds from sale of other real estate owned	1,565,325	2,446,464
Investment in rental property	(2,721,899)	—
Net cash provided by (used in) operating activities	(471,219,462)	28,439,560
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	1,064,881,119	1,199,865,000
Principal payments on notes and bonds	(860,934,931)	(602,391,744)
Interest payments on notes and bonds	(239,052,774)	(219,983,322)
Cash payments for bond issuance expenses	(6,677,971)	(5,750,140)
Redemption premium paid on bond calls	(1,647,350)	(1,396,600)
Net cash provided by (used in) noncapital financing activities	(43,431,907)	370,343,194
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(5,323,331)	(464,031)
Proceeds from disposal of furniture and equipment	2,264	63,712
Net cash used in capital and related financing activities	(5,321,067)	(400,319)
Cash flows from investing activities:		
Purchases of investments	(1,649,025,671)	(1,374,862,291)
Proceeds from sales or maturities of investments	2,286,665,396	1,116,313,636
Interest received on investments	49,944,158	25,525,270
Net cash provided by (used in) investing activities	687,583,883	(233,023,385)
Net increase in cash and cash equivalents	167,611,447	165,359,050
Cash and cash equivalents, at beginning of year	539,878,391	374,519,341
Cash and cash equivalents, at end of year	$ 707,489,838	539,878,391

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

		2006	2005
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	$	101,066,996	98,998,425
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		1,367,616	1,415,461
Other depreciation and amortization		3,197,835	2,809,158
Interest on notes and bonds		260,081,437	232,280,943
Investment in rental property		(12,001,602)	—
Increase in mortgage and other loans receivable		(788,495,804)	(324,868,158)
Increase in allowance for loan losses		7,713,355	—
(Increase) decrease in interest receivable – mortgage and other loans		(725,172)	1,667,620
Increase in other real estate owned		(3,141,775)	(1,183,743)
Increase in other assets		(4,611,849)	(1,443,492)
Increase (decrease) in accounts payable and other liabilities		(24,277,659)	19,956,266
Increase (decrease) in Housing Choice Voucher contribution		(3,313,257)	4,287,165
Increase in escrows and project reserves		6,697,007	3,427,122
Decrease in net deferred loan fees		(14,776,590)	(8,907,207)
Net cash provided by (used in) operating activities	$	(471,219,462)	28,439,560
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	$	14,129,008	3,873,554

See accompanying notes to basic financial statements.

(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 U.S. 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. As provided for in 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 has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and judgments that affect reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(d) Investments

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

(Continued)

(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 straight line method over the estimated useful lives, which are thirty years for the building, fifteen years for building improvements and five years for furniture and equipment. The investment is carried net of accumulated depreciation of $6,160,718 as of June 30, 2006 and $4,913,652 as of June 30, 2005.

(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 and an allowance for loan losses. 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 $7,713,355 for the year ended June 30, 2006. For the year ended June 30, 2005, there was no provision for loan losses.

(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.

(l) Retirement Plans

The Authority has three defined contribution employees' retirement savings plan covering substantially all employees. 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 healthcare benefits to all employees who have met the years of service requirement 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 healthcare 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) Section 8 Programs

Project Based

As the Commonwealth administrator for the Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling $71,643,263 and $71,782,931 during the years ended June 30, 2006 and 2005, respectively.

Tenant Based

As the Commonwealth administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income. For years ending June 30, 2005 and prior, upon receipt of HAP Section 8 funds, a liability was recorded for the Authority's obligation to disburse funds to Section 8 participants. The Authority received and disbursed pass-through grants totaling $51,073,466 during the year ended June 30, 2005, excluding administrative fees.

As of July 1, 2005, and prospectively going forward, the Authority changed the accounting for Section 8 funds as required by "Notice PIH 2006-03 (HA)" issued by HUD. Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the statement of revenues, expenses and changes in net assets. Excess funds budgeted to the Authority to disburse as HAP or administrative funds are recorded in unrestricted net assets in the statement of net assets as of June 30, 2006 as cash settlement with HUD is no longer required. The impact of this change in accounting for the year ended June 30, 2006 resulted in $10.4 million of revenue recorded in the Statement of Revenues, Expenses and Changes in Net Assets. HUD will monitor the utilization of these excess funds and take the appropriate action to assure the funds are being used to serve as many families up to the number of vouchers authorized by the program.

(o) Commonwealth Priority Housing Fund

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The 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 flows, 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 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) Operating and Nonoperating Revenues and Expenses

The Authority's statements of revenues, expenses and changes in net assets distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(s) Reclassifications

Certain reclassifications have been made in the June 30, 2005 financial statements to conform to the June 30, 2006 presentation.

(Continued)

(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 Bond and Rental Housing Bond Groups

The proceeds of the Multi-family Housing Bonds and Rental Housing Bonds are used to finance construction and permanent loans on multi-family development projects, as well as, permanent financing for owned rental property.

(c) VHDA 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, as well as, temporary financing for other real estate owned.

(Continued)

(3) Unrestricted 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 2006	June 30 2005
Unrestricted assets:		
Current assets:		
Cash and cash equivalents	$ 101,204,960	72,476,172
Investments	19,873,262	359,879,268
Interest receivable – investments	1,420,981	1,099,005
Mortgage and other loans receivable	3,155,926	2,928,030
Interest receivable – mortgage and other loans	879,911	958,980
Other real estate owned	1,629,664	359,431
Other assets	2,301,063	1,895,300
Total unrestricted current assets	130,465,767	439,596,186
Noncurrent assets:		
Investments	239,724,853	252,468,133
Mortgage and other loans receivable, net	115,031,461	118,540,469
Property, furniture and equipment, less accumulated depreciation and amortization of $12,918,275 and $13,543,381	7,436,435	2,909,630
Other assets	3,779,760	3,339,446
Total unrestricted noncurrent assets	365,972,509	377,257,678
Total unrestricted assets	$ 496,438,276	816,853,864

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. 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
General Operating Loan Programs	0% to 9.14%	Thirty to forty years
Multi-Family Housing Bond Group	3.50% to 13.11%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
VHDA General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to 13.85%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2006:

General Operating Loan Programs	$	19,796,000
Rental Housing Bond Group		128,341,000
Commonwealth Mortgage Bond Group		390,068,000
Total	$	538,205,000

Beginning in fiscal year 2006, the Authority implemented a new methodology for determining the amount of its net assets to be used to provide reduced interest rates on mortgage loans or to otherwise subsidize its programs. Such methodology replaces the previous method of a specific dollar amount of mortgage loan funds to be made available under the Virginia Housing Fund 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 on 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 change in net assets (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, 2006 and 2005, the carrying amount of the Authority's deposits were $32,628,620 and $18,570,226, respectively and checks drawn in excess of bank balances, included in accounts payable and other liabilities, were $11,374,962 and $21,682,794. The associated bank balance of the Authority's deposits were $31,423,141 and $31,663,773 at June 30, 2006 and 2005, respectively. 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. At June 30, 2006 and 2005, total cash equivalents were $674,861,218 and $521,308,165, respectively.

Investments are classified in the statements of net assets as follows:

		June 30	
		2006	**2005**
Current investments	$	99,569,288	625,079,943
Noncurrent investments		329,413,357	446,572,542
Total investments	$	428,982,645	1,071,652,485

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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The Authority has elected the Segmented True Distribution method of disclosure.

As of June 30, 2006, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$	48,700,000	4,894,350	804,401	15,000,000	69,398,751
Repurchase agreements		305,467,407	—	—		305,467,407
Municipal securities		13,955,399	16,667,896	—	525,115	31,148,410
Asset-backed securities		—	19,988,300	—	121,383,029	141,371,329
Agency mortgage-backed		—	—	7,474,729	36,204,056	43,678,785
Guaranteed investment contracts		—	—	—	—	—
U.S. Government and agency securities		26,953,889	2,603,019	25,251,280	24,917,582	79,725,770
Money market instruments		406,554,671	4,999,600	—	—	411,554,271
Other interest bearing		21,499,140	—	—	—	21,499,140
Total investments	$	823,130,506	49,153,165	33,530,410	198,029,782	1,103,843,863

As of June 30, 2005, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$	75,200,000	41,083,832	880,916	—	117,164,748
Repurchase agreements		410,302,007	—	—		410,302,007
Municipal securities		375,000	28,778,263	—	—	29,153,263
Asset-backed securities		—	11,446,052	37,207,903	188,811,460	237,465,415
Agency mortgage-backed		—	—	—	55,682,361	55,682,361
Guaranteed investment contracts		79,998,979	240,000,000	—	—	319,998,979
U.S. Government and agency securities		2,985,000	22,468,662	922,027	39,591,009	65,966,698
Money market instruments		29,045,393	—	—	—	29,045,393
Other interest bearing		1,586,786	326,595,000	—	—	328,181,786
Total investments	$	599,493,165	670,371,809	39,010,846	284,084,830	1,592,960,650

Credit Risk

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill it obligations. The Authority places emphasis on securities of high credit quality and marketability.

Investment Type		Amount	Rating (per Moody's)	Percentage of portfolio
Money market instruments	$	326,557,376	P-1	29.58%
Repurchase agreements		305,467,407	P-1	27.67%
Asset-backed securities		139,477,274	Aaa	12.64%
Money market instruments		79,997,295	Aaa	7.25%
U.S. Government and agency securities		79,428,863	Aaa	7.20%
Corporate Notes		63,700,000	Aaa	5.77%
Agency mortgage-backed		43,678,785	Aaa	3.96%
Municipal securities		17,480,452	Aa	1.58%
Other interest bearing		13,500,000	P-1	1.22%
Municipal securities		12,327,958	Aaa	1.12%
Other interest bearing		7,999,140	AAA	0.72%
Money market instruments		4,999,600	Unrated	0.45%
Corporate Notes		4,894,350	Aa	0.44%
Asset-backed securities		1,894,055	Aa	0.17%
Municipal securities		1,340,000	VMIG-1	0.12%
Corporate Notes		804,401	A	0.07%
U.S. Government and agency securities		296,907	Unrated	0.03%
Total investments	$	1,103,843,863		

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the fiscal year 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Land	$ 1,945,095	892,000	—	2,837,095
Building	19,106,393	3,227,185	—	22,333,578
Furniture and equipment	14,147,529	1,156,717	(1,291,826)	14,012,420
Motor vehicles	360,983	47,429	(19,604)	388,808
	$ 35,560,000	5,323,331	(1,311,430)	39,571,901

Activity in the related accumulated depreciation accounts during fiscal year 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Building	$ (9,823,359)	(666,838)	—	(10,490,197)
Furniture and equipment	(13,244,785)	(659,386)	1,291,664	(12,612,507)
Motor vehicles	(298,596)	(41,392)	19,604	(320,384)
	$ (23,366,740)	(1,367,616)	1,311,268	(23,423,088)

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

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
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
	$ 36,041,484	464,031	(945,515)	35,560,000

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

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
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)
	$ (22,895,119)	(1,415,461)	943,840	(23,366,740)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2006 and 2005, and changes for the period were as follows:

Notes and bonds payable at June 30, 2006 and 2005, and changes for the period were as follows:

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
General operating accounts:				
Note:				
Federal Home Loan Bank, floating rate, (weighted average rate of 5.29% at June 30, 2006) no fixed maturity	$ 326,595	77,810	397,185	7,220
Total general operating accounts	326,595			7,220
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 11, 2017	10,875	—	10,875	—
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	1,175	—	1,175	—
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	255	—	255	—
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	2,110	—	2,110	—
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	17,365	—	3,015	14,350
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	5,375	—	5,375	—
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	19,975	—	14,415	5,560

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	$ 44,240	—	31,880	12,360
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	23,835	—	18,710	5,125
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,205	—	4,205	—
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	24,400	—	12,690	11,710
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	15,725	—	935	14,790
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	14,195	—	720	13,475
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	18,575	—	975	17,600
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	40,570	—	2,015	38,555
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	45,545	—	1,900	43,645
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,075	—	335	5,740
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	46,105	—	2,280	43,825

Description		Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
			(Amounts shown in thousands)		
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	$	43,610	—	1,830	41,780
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018		46,630	—	2,405	44,225
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019		27,405	—	1,270	26,135
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018		39,925	—	2,145	37,780
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019		30,745	—	1,420	29,325
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019		29,870	—	1,445	28,425
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019		65,005	—	3,145	61,860
		623,790	—	127,525	496,265
Unamortized premium		2,634			2,049
Total Multi-Family Housing Bonds		626,424			498,314

Description		Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
			(Amounts shown in thousands)		
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	$	42,485	—	1,600	40,885
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022		50,995	—	1,580	49,415
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023		34,185	—	1,065	33,120
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023		33,195	—	1,080	32,115
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024		59,370	—	1,490	57,880
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024		16,160	—	430	15,730
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024		42,590	—	1,365	41,225
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024		61,025	—	1,615	59,410
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025		59,100	—	1,475	57,625
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024		13,590	—	455	13,135
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025		19,890	—	940	18,950

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	$ 47,720	—	1,240	46,480
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	61,090	—	1,725	59,365
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	41,570	—	940	40,630
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	36,175	—	985	35,190
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	23,525	—	605	22,920
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	43,030	—	1,180	41,850
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	62,725	—	995	61,730
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	76,000	—	1,865	74,135
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	56,095	—	1,725	54,370
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	62,665	—	2,165	60,500
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	81,745	—	2,520	79,225

(Continued)

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	$ 51,860	—	1,105	50,755
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	17,205	—	120	17,085
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	74,895	—	1,760	73,135
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	53,655	—	990	52,665
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	—	240	39,115
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	41,680	—	475	41,205
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	65,245	—	150	65,095
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	42,065	—	—	42,065

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	$ 74,120	—	29,000	45,120
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	—	93,465	—	93,465
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	—	40,540	—	40,540
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	—	40,500	—	40,500
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	—	8,795	—	8,795
	1,541,235	183,300	62,880	1,661,655
Unamortized premium	379			2,823
Total Rental Housing Bonds	1,541,614			1,664,478
VHDA General Purpose Bonds:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	83,815	—	3,445	80,370
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	259,250	—	2,660	256,590
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	29,085	—	500	28,585
2003 Series R/S/T/U, dated October 30, 2003 4.62% effective interest rate, final due date October 1, 2038	86,960	—	1,005	85,955

(Continued)

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2003 Series V, dated June 26, 2003 4.52% effective interest rate, final due date October 1, 2029	$ 49,920	—	2,520	47,400
	509,030	—	10,130	498,900
Unamortized discount	(2,066)			(811)
Total General Purpose Bonds	506,964			498,089
Commonwealth Mortgage Bonds:				
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	46,120	—	46,120	—
1996 Series E/F, dated December 18, 1996, 5.43% effective interest rate, final due date January 1, 2046	140,000	—	—	140,000
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	10,692	—	3,680	7,012
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	11,784	—	4,179	7,605
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	87,915	—	58,265	29,650
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	16,549	—	6,043	10,506

(Continued)

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	$ 17,923	—	4,920	13,003
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	163,685	—	53,695	109,990
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	24,399	—	8,719	15,680
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	66,444	—	17,629	48,815
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	24,771	—	8,311	16,460
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	2,621	—	972	1,649
2002 Series E/F/G, dated December 17, 2002, 5.00% effective interest rate, final due date December 25, 2032	69,477	—	17,751	51,726
2003 Series A/B, dated April 3, 2003, 4.28% effective interest rate, final due date April 1, 2027	165,140	—	18,800	146,340
2003 Series C, dated October 1, 2003, 5.00% effective interest rate, final due date August 25, 2033	4,782	—	2,247	2,535
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2035	179,280	—	5,060	174,220

(Continued)

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
		(Amounts shown in thousands)		
2004 Series B, dated June 10, 2004, 5.50% effective interest rate, final due date June 25, 2034	$ 15,850	—	2,906	12,944
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	170,000	—	550	169,450
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	465,000	—	3,000	462,000
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042	46,120	—	—	46,120
2005 Series C/D/E, dated November 3, 2005, 3.23% effective interest rate, final due date April 1, 2028	—	450,090	—	450,090
2005 Series F/G, dated December 15, 2005, 3.66% effective interest rate, final due date December 1, 2010	—	239,560	—	239,560
2006 Series A, dated April 27, 2006, 5.50% effective interest rate, final due date March 25, 2036	—	5,651	233	5,418
2006 Series B, dated April 27, 2006, 6.00% effective interest rate, final due date March 25, 2036	—	7,586	135	7,451
2006 Series C, dated June 8, 2006, 6.00% effective interest rate, final due dated June 25, 2034	—	100,885	—	100,885
	1,951,552	803,772	263,215	2,492,109
Unamortized premium	632			2,025
Total Commonwealth Mortgage Bonds	1,952,184			2,494,134
Total	$ 4,953,781			5,162,235

(Continued)

Notes and bonds payable at June 30, 2005 and 2004 and changes for the period were as follows (amounts in thousands):

		June 30, 2004	Issued	Retired	Change in unamortized premium discount and compound interest payable	June 30, 2005
General operating accounts	$	139,670	200,050	13,125	—	326,595
Multi-Family Housing Bonds		738,225	—	111,810	9	626,424
Rental Housing Bonds		1,250,396	318,695	27,105	(372)	1,541,614
VHDA General Purpose Bonds		514,770	—	9,295	1,489	506,964
Commonwealth Mortgage Bonds		1,708,406	681,120	441,057	3,715	1,952,184
Total	$	4,351,467	1,199,865	602,392	4,841	4,953,781

		June 30	
		2006	2005
		(Amounts shown in thousands)	
Notes and bonds payable – current	$	395,629	522,980
Bonds payable – noncurrent		4,766,606	4,430,801
Total	$	5,162,235	4,953,781

The Authority has the right to specifically redeem bonds, without, premium upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which will be subject to redemption, without premium, from mandatory sinking fund installments.

(Continued)

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, 2006 and thereafter are as follows:

	Original principal	Current interest	Total debt service
Period ending June 30:			
2007	$ 395,628,673	250,084,530	645,713,203
2008	189,825,000	240,661,675	430,486,675
2009	218,320,000	232,527,458	450,847,458
2010	227,185,000	223,133,852	450,318,852
2011	219,370,000	213,190,604	432,560,604
2012 – 2016	1,010,765,000	917,067,228	1,927,832,228
2017 – 2021	885,210,000	667,989,551	1,553,199,551
2022 – 2026	752,305,000	447,499,515	1,199,804,515
2027 – 2031	558,378,993	265,298,338	823,677,331
2032 – 2036	456,065,883	123,963,572	580,029,455
2037 – 2041	143,175,000	43,772,198	186,947,198
2042 – 2046	99,920,000	11,170,344	111,090,344
	$ 5,156,148,549	3,636,358,865	8,792,507,414

(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, 2006 and 2005, these escrows and project reserves were presented in the Authority's statements of net assets as follows:

	2006	2005
Escrows – current	$ 28,938,071	26,255,514
Project reserves – noncurrent	163,034,955	159,409,620
Totals	$ 191,973,026	185,665,134

(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 Bond and Rental Housing Bond Group is limited by certain Federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities and amounted to $2,712,524 and $1,860,897 at June 30, 2006 and 2005, respectively.

(10) Risk Management

The Authority manages its interest rate risk on a portion of 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, 2006 and 2005, the authority experienced a net gain of $1,243,157 and a net loss of $2,142,074, respectively, from hedging transactions settled during the year. At June 30, 2006, no short sales were outstanding. 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, 2006 and 2005, such designations included 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 under a defined contribution plan equal to eight percent of full time employees' compensation. Total retirement savings expense for the years ended June 30, 2006 and 2005 was $1,539,534 and $1,453,215, 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

(Continued)

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, 2006 and 2005, included in accounts payable and other liabilities is an employee compensated absences accrual of $2,710,357 and $2,796,921, respectively (see note 13).

Funding amounts for the postretirement healthcare benefits offered are approved annually by the Board of Commissioners. Included in accounts payable and other liabilities is a postretirement healthcare benefit liability of $6,903,253 and $6,003,160 as of June 30, 2006 and 2005, respectively (see note 13). Total expense incurred for these benefits for the years ended June 30, 2006 and 2005 was $639,580 and $603,138, respectively.

(13) Other Long Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the period ending June 30, 2006 was as follows:

	Balance at June 30, 2005	Additions	Decreases	Balance at June 30, 2006
Project reserves	$ 159,409,620	52,598,241	48,972,906	163,034,955
Commonwealth Priority Housing Fund liability	17,985,632	409,044	10,807,424	7,587,252
Other liabilities	10,547,557	3,383,491	1,708,571	12,222,477
Compensated absences payable	2,796,921	1,390,002	1,476,566	2,710,357
Retiree healthcare	6,003,160	1,188,043	287,950	6,903,253
Total	$ 196,742,890	58,968,821	63,253,417	192,458,294

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

	Balance at June 30, 2004	Additions	Decreases	Balance at June 30, 2005
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	$ 194,109,754	50,417,766	47,784,630	196,742,890

(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, 2006, 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 schedule bond issues, the Authority made a bond issue of certain bonds payable subsequent to June 30, 2006 as follows:

Commonwealth Mortgage Bonds, 2006 Series D, E and F	July 13, 2006	$	650,000,000

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2006 as follows:

Commonwealth Mortgage Bonds	October 1, 2006	$	23,665,000

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2006

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	$ 120,398,295	18,581,665	76,606,912	32,908,277	458,994,689	707,489,838
Investments	19,873,262	17,047,589	6,848,437	—	55,800,000	99,569,288
Interest receivable – investments	1,434,817	542,577	228,767	53,009	1,722,977	3,982,147
Mortgage and other loans receivable	3,155,926	15,654,402	24,647,214	18,155,805	40,746,215	102,359,562
Interest receivable – mortgage and other loans	900,572	4,188,178	10,234,121	2,926,381	6,803,185	25,052,437
Other real estate owned	1,629,664	2,023,300	—	2,289,687	751,591	6,694,242
Housing Choice Voucher contributions receivable	105,359	—	—	—	—	105,359
Other assets	4,942,522	—	153,681	3,159,392	361,783	8,617,378
Total current assets	152,440,417	58,037,711	118,719,132	59,492,551	565,180,440	953,870,251
Noncurrent assets:						
Investments	242,199,208	54,906,841	29,894,656	804,401	1,608,251	329,413,357
Mortgage and other loans receivable	122,831,828	662,135,399	1,631,464,603	511,738,694	3,111,379,055	6,039,549,579
Less allowance for loan loss	1,256,460	5,317,993	11,350,224	1,946,016	20,382,887	40,253,580
Less net deferred loan fees	158,292	9,506,051	23,264,244	5,409,159	(2,878,294)	35,459,452
Mortgage and other loans receivable, net	121,417,076	647,311,355	1,596,850,135	504,383,519	3,093,874,462	5,963,836,547
Investment in rental property, net	—	—	26,511,907	3,963,045	—	30,474,952
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,423,088	7,532,617	—	—	8,616,196	—	16,148,813
Unamortized bond issuance expenses	298,180	930,124	2,052,632	1,892,198	930,577	6,103,711
Interfund receivable	(30,690,308)	4,171,220	10,212,268	4,360,680	11,946,140	—
Other assets	3,779,760	—	—	—	—	3,779,760
Total noncurrent assets	344,536,533	707,319,540	1,665,521,598	524,020,039	3,108,359,430	6,349,757,140
Total assets	$ 496,976,950	765,357,251	1,784,240,730	583,512,590	3,673,539,870	7,303,627,391

(Continued)

Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2006

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	$ 7,220,000	32,180,000	41,185,000	10,500,000	304,543,673	395,628,673
Accrued interest payable on notes and bonds	24,014	4,986,830	24,439,480	9,969,847	33,981,035	73,401,206
Escrows	28,938,071	—	—	—	—	28,938,071
Accounts payable and other liabilities	13,992,023	130,669	273,575	1,623,249	15,321,054	31,340,570
Total current liabilities	50,174,108	37,297,499	65,898,055	22,093,096	353,845,762	529,308,520
Noncurrent liabilities:						
Bonds payable, net	—	466,133,579	1,623,293,222	487,588,708	2,189,590,806	4,766,606,315
Project reserves	163,034,955	—	—	—	—	163,034,955
Other liabilities	24,695,944	931,204	2,109,921	40,676	1,645,594	29,423,339
Total noncurrent liabilities	187,730,899	467,064,783	1,625,403,143	487,629,384	2,191,236,400	4,959,064,609
Total liabilities	237,905,007	504,362,282	1,691,301,198	509,722,480	2,545,082,162	5,488,373,129
Net assets:						
Invested in capital assets, net of related debt	7,532,617	—	(1,684,826)	(9,322,397)	—	(3,474,606)
Restricted by bond indentures	—	260,994,969	94,624,358	83,112,507	1,128,457,708	1,567,189,542
Unrestricted	251,539,326	—	—	—	—	251,539,326
Total net assets	259,071,943	260,994,969	92,939,532	73,790,110	1,128,457,708	1,815,254,262
Total liabilities and net assets	$ 496,976,950	765,357,251	1,784,240,730	583,512,590	3,673,539,870	7,303,627,391

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

	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	$ 5,726,854	55,836,155	114,750,440	40,514,456	172,564,031	389,391,936
Pass-through grants received	71,643,263	—	—	—	—	71,643,263
Housing Choice Voucher program income	66,204,626	—	—	—	—	66,204,626
Gains and recoveries on sale of other real estate owned	34,375	—	—	6,592	86,993	127,960
Other	5,848,040	—	5,302,672	2,286,236	—	13,436,948
Total operating revenues	149,457,158	55,836,155	120,053,112	42,807,284	172,651,024	540,804,733
Operating expenses:						
Interest on notes and bonds	6,856,954	34,887,531	92,127,484	24,908,888	101,300,580	260,081,437
Salaries and related employee benefits	27,629,273	—	—	—	—	27,629,273
General operating expenses	11,095,332	18,717	1,397,203	1,541,318	—	14,052,570
Note and bond expenses	287,152	—	—	—	—	287,152
Amortization of bond issuance expenses	—	283,746	98,741	55,575	153,855	591,917
Pass-through grants disbursed	71,643,263	—	—	—	—	71,643,263
Housing Choice Voucher program expenses	54,449,974	—	—	—	—	54,449,974
External mortgage servicing expenses	41,843	—	—	7,633	2,895,430	2,944,906
Losses and expenses on other real estate owned	51,769	—	—	31,235	260,886	343,890
Provision for loan losses	(623,022)	1,146,773	1,137,956	(2,385,099)	8,436,747	7,713,355
Total operating expenses	171,432,538	36,336,767	94,761,384	24,159,550	113,047,498	439,737,737
Operating income (expense)	(21,975,380)	19,499,388	25,291,728	18,647,734	59,603,526	101,066,996
Nonoperating revenues:						
Investment income	13,535,936	2,750,517	6,695,270	1,025,935	20,899,593	44,907,251
Other, net	125,573	—	—	—	—	125,573
Total nonoperating revenues	13,661,509	2,750,517	6,695,270	1,025,935	20,899,593	45,032,824
Income (loss) before transfers	(8,313,871)	22,249,905	31,986,998	19,673,669	80,503,119	146,099,820
Transfers between funds	21,576,330	(32,727,286)	(4,639,087)	1,722,399	14,067,644	—
Change in net assets	13,262,459	(10,477,381)	27,347,911	21,396,068	94,570,763	146,099,820
Total net assets, beginning of year	245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442
Total net assets, end of year	$ 259,071,943	260,994,969	92,939,532	73,790,110	1,128,457,708	1,815,254,262

See accompanying independent auditors' report.

Schedule 3

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	453,040,691	80,043,185	145,651,986	47,485,311	568,909,946	1,295,131,119
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	124,106,637	751,136,564	1,352,777,411	499,911,187	2,448,422,871	5,176,354,670
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	365,196,311	825,902,525	1,484,225,128	525,459,881	2,464,483,567	5,665,267,412
Total assets	$ 818,237,002	905,945,710	1,629,877,114	572,945,192	3,033,393,513	6,960,398,531

(Continued)

Schedule 3

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	377,417,089	51,705,567	85,165,845	23,658,836	125,752,134	663,699,471
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	195,010,429	582,767,793	1,479,119,648	496,892,314	1,873,754,434	4,627,544,618
Total liabilities	572,427,518	634,473,360	1,564,285,493	520,551,150	1,999,506,568	5,291,244,089
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	245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442
Total liabilities and net assets	$ 818,237,002	905,945,710	1,629,877,114	572,945,192	3,033,393,513	6,960,398,531

See accompanying independent auditors' report.

Schedule 4

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	71,782,931	—	—	—	—	71,782,931
Housing Choice Voucher program income	58,593,848	—	—	—	—	58,593,848
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	141,655,791	68,151,453	93,980,101	40,731,541	157,909,265	502,428,151
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	71,782,931	—	—	—	—	71,782,931
Housing Choice Voucher program expenses	56,656,326	—	—	—	—	56,656,326
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	170,560,316	44,610,135	78,839,853	26,927,641	82,491,781	403,429,726
Operating income (expense)	(28,904,525)	23,541,318	15,140,248	13,803,900	75,417,484	98,998,425
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	11,347,249	4,535,355	3,779,402	1,225,891	6,392,659	27,280,556
Income (loss) before transfers	(17,557,276)	28,076,673	18,919,650	15,029,791	81,810,143	126,278,981
Transfers between funds	15,577,763	(40,662,792)	15,827,865	734,966	8,522,198	—
Change in net assets	(1,979,513)	(12,586,119)	34,747,515	15,764,757	90,332,341	126,278,981
Total net assets, beginning of year	247,788,997	284,058,469	30,844,106	36,629,285	943,554,604	1,542,875,461
Total net assets, end of year	$ 245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442

See accompanying independent auditors' report.

KPMG

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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, 2006, and have issued our report thereon dated September 22, 2006. 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 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 22, 2006