

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

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

September 30, 2011 and 2010

(Unaudited)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)  
(Unaudited)

**Table of Contents**

	<b>Page</b>
Management's Discussion and Analysis	1
Basic Financial Statements:	
Statements of Net Assets – September 30, 2011 and 2010	10
Statements of Revenues, Expenses, and Changes in Net Assets – Three Months Ended September 30, 2011 and 2010	11
Statements of Cash Flows – Three Months Ended September 30, 2011 and 2010	12
Notes to Basic Financial Statements	14
<b>Required Supplementary Information</b>	
1 Virginia Housing Development Authority Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date	43
<b>Other Supplementary Information</b>	
2 Combining Schedule of Net Assets – September 30, 2011	44
3 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – Three Months Ended September 30, 2011	46
4 Combining Schedule of Net Assets – September 30, 2010	47
5 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – Three Months Ended September 30, 2010	49

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

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 three months ended September 30, 2011 and 2010. 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 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. Furthermore, as a self-sustaining organization, the Authority 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 Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multifamily housing projects. The Authority also underwrites Resources Enabling Affordable Community Housing (REACH Virginia) initiatives, in which the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net assets used to provide reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 15% of the average of the Authority's change in net assets, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, for the preceding three fiscal years or, commencing with fiscal year 2011, the preceding five fiscal years. The Authority may use a higher amount if determined to be appropriate. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

**Financial Statements**

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

The *Statements 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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

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 *Statements of Revenues, Expenses, and Changes in Net Assets* identify 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 *Statements 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. These statements provide information regarding the sources and uses of cash and the change in cash during the reporting period.

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

## **Financial Highlights**

### *Overview*

The Authority has improved its financial position despite another year of challenges in the housing industry and broader economy. Programs and services have been primarily aimed toward loan loss mitigation while continuing to provide loan availability and down-payment assistance for qualified first time homebuyers through the securitization of federally insured and guaranteed loans using Ginnie Mae (GNMA) securities and the U.S. Treasury New Issue Bond Program (NIB) as funding sources, and continual review of bond market opportunities. Amid this period of significant transition, economic uncertainty, and major housing finance and policy shift at the national level, the Authority has successfully sustained its services despite limited financing options, rising delinquencies and foreclosures, nominal investment earnings, and further property devaluations.

The Authority has reviewed its core programs and services with renewed effort to better access cost-effective capital to support its lending programs and assess underwriting risks resulting from market challenges associated with its lending programs. Under the NIB Program, the Authority received an allocation of \$482.9 million to issue short-term variable rated bonds to Treasury, representing 60% of the total issue, held in escrow until converted no later than December 31, 2011 upon the issuance of the remaining 40% to the general public. Capital funds raised from this program have helped to sustain the Authority's tax-exempt homeownership mortgage loan production this year and into the next fiscal year.

Since the Authority services all of its single family loans, efforts aimed at working with troubled borrowers and mitigating potential foreclosure losses have been paramount. The Authority has continued to explore avenues to prevent foreclosure for otherwise responsible borrowers encountering financial hardships beyond their control, including loan modifications. As long as employment levels remain weak in the broader economy, challenges for borrowers will continue. In response to higher loan losses, higher reserve requirements have been established.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

Additionally, the Authority has provided substantial support to state-wide foreclosure prevention awareness and housing policy initiatives, and its homeownership education, underwriting and loss mitigation practices continue to help restrain delinquency and foreclosure rates below those for Virginia and the nation.

Both Standard & Poor's (S&P) and Moody's rating services re-affirmed in May 2011 the Authority's AA+ issuer credit rating and Aa1 general obligation credit rating, respectively, citing key indicators of strong financial position, sound financial practices, and experienced managers.

On August 8, 2011, S&P notified the Authority that VHDA's Commonwealth Mortgage Bond resolution was placed on CreditWatch Negative. S&P will be reviewing the AAA rating on this bond resolution because a portion of the mortgage loans securing the resolution are federally insured or guaranteed including 36% of the loans that are insured by the Federal Housing Administration (FHA), whose credit is ultimately derived from the U.S. government. On August 5, 2011 S&P lowered from AAA to AA+ its long term debt rating for the U.S. S&P did not take any action with respect to VHDA's other bond resolutions, all of which are rated AA+. An estimate of the financial effect, if any, on the Authority cannot be made.

***Three Months Ended September 30, 2011***

Homeownership loan originations totaled 620 in the quarter compared to 714 for the same period last year. Mortgage loan production dropped year over year as a consequence of prolonged economic recession and conservation of available tax-exempt bond resources.

As of September 30, 2011, the Authority serviced 54,686 first and second homeownership mortgage loans with outstanding balances totaling \$5.2 billion. The number of loans serviced, net of prepayments, increased 994 or 1.85% since September 30, 2010 while outstanding loan balances decreased \$72.4 million or 1.39% as of the same date.

In the first quarter, there were 179 foreclosures valued at \$23.9 million or 0.45% of the homeownership loan portfolio, compared to a year ago with 155 foreclosures valued at \$20.3 million or 0.39% of loan amounts. Recovery rates averaging 65% and higher significantly mitigated the impact of loan losses. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.77% for the three months ended September 30, 2011, compared to 10.33% a year ago. Delinquency rates based on outstanding loan balances averaged 5.85% and 6.09% in the first quarter of FY 2012 and FY 2011, respectively.

Financing commitments for 1,020 rental housing units were made during the quarter, totaling \$76.7 million, compared to 1,202 units totaling \$89.9 million for the prior year.

As of September 30, 2011 the Authority serviced 1,501 rental mortgage loans with outstanding balances totaling \$3.4 billion. Compared to September 30, 2010, the number of loans in the portfolio decreased by nine while loan balances increased \$17.8 million or 0.53%. Delinquency rates based on portfolio loan count averaged 1.52% and 1.91% in the first three months of FY 2011 and FY 2010, respectively. The average delinquency rates based on outstanding loan balances were 0.65% and 0.62% in the first quarter of FY 2012 and FY 2011, respectively..

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

***Three Months Ended September 30, 2010***

Homeownership loan originations totaled 714 in the first quarter of fiscal year (FY) 2011 compared to 1,111 for the same period last year. Since expiration of the federal Homebuyer Tax Credit program, coupled with a prolonged consequence of market aversion to taxable bond resources and conservation of available tax-exempt bond resources, mortgage loan production has decreased.

As of September 30, 2010 the Authority serviced 53,692 first and second homeownership mortgage loans with outstanding balances totaling \$5.2 billion. The number of loans serviced, net of prepayments, increased 2,939 or 5.8% since September 30, 2009 while outstanding loan balances increased \$85.6 million or 1.7% as of the same date. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.33% for the first quarter of FY 2011, compared to 9.09% a year ago. Delinquency rates based on outstanding loan balances averaged 6.09% and 5.17% in the first quarter of FY 2011 and FY 2010, respectively. In the first quarter of FY 2011 there were foreclosures valued at \$20.3 million or 0.39% of the homeownership loan portfolio, compared to a year ago with foreclosures valued at \$22.4 million or 0.45% of loan amounts. Recovery rates averaging 75% and higher, significantly mitigated the impact of loan losses.

Financing commitments were made for 13 rental housing projects during the quarter, representing 1,202 units totaling \$89.89 million, compared to 10 projects and 783 units totaling \$68.13 million for the same quarter a year ago. Rental housing development and rehabilitation, driven in part by the recent federal tax credit exchange and assistance programs, as well as tax-exempt and taxable bond sources, has exceeded last year's levels.

As of September 30, 2010 the Authority serviced 1,510 rental mortgage loans with outstanding balances totaling \$3.36 billion. Compared to September 30, 2009, the number of loans in the portfolio increased 53 or 3.6% and the loan balances increased \$93.61 million or 2.9%. Delinquency rates based on portfolio loan count averaged 1.91% and 1.54% in the first quarter of FY 2011 and FY 2010, respectively. The average delinquency rates in the first quarter based on outstanding loan balances were 0.62% or \$20.36 million compared to 0.40% or \$12.79 million in FY 2010. During the first quarter no foreclosed rental properties were acquired.

**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. Monies on deposit in Virginia banks are secured under the Virginia Security for Public Deposits Act of the Code of Virginia.

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 creditworthiness of the investment, as determined by ratings provided by S&P and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

Mortgage and other loan receivables represent the Authority's principal assets. 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 is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain its long-term rating of Aa1 from Moody's Investors Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa. S&P Rating Services has a rating a of AA+ for the Authority's general credit as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture. The Commonwealth Mortgage Bonds are rated AAA, subject to a negative credit watch and review announced by S&P on August 8, 2011 following the downgrading of the federal government credit rating the prior week. Net assets are comprised of capital assets, net of related debt, restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, 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.

	<b>September 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 1,762.9	1,354.3	990.5
Investments	203.5	143.9	101.7
Mortgage loans held for sale	—	—	
Mortgage and other loans receivable, net	7,843.7	8,037.5	8,108.4
Other assets	181.2	170.0	156.9
Total assets	<u>9,991.3</u>	<u>9,705.7</u>	<u>9,357.5</u>
Notes and bonds payable, net	7,299.7	7,080.3	6,845.9
Other liabilities	354.4	379.7	371.3
Total liabilities	<u>7,654.1</u>	<u>7,460.0</u>	<u>7,217.2</u>
Invested in capital assets, net of related debt	25.4	0.7	3.7
Restricted by bond indentures	2,148.8	2,096.1	1,973.4
Unrestricted	163.0	148.9	163.2
Net assets	<u>\$ 2,337.2</u>	<u>2,245.7</u>	<u>2,140.3</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

***September 30, 2011 Compared to September 30, 2010***

Total assets increased \$285.6 million, or 2.9% from the prior year. Cash and cash equivalents, and investments, combined, increased \$468.2 million, or 31.3% from the prior year. Mortgage and other loans receivables decreased by \$193.8 million, or 2.4%, as a result of decreased homeownership mortgage loan production and continuing securitization of loans through GNMA.

Total liabilities increased \$194.1 million, or 2.6% from the prior year. Notes and bonds payable increased \$219.4 million or 3.1%. For the year, the Authority issued \$214.65 million in single-family homeownership bonds and \$87.29 million in rental housing bonds, and drew a net additional \$445.85 million on notes and lines of credit. Bond principal paydowns and calls totaled \$533.79 million. Proceeds from bond issues in the homeownership bond group and GNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,337.2 million, representing an increase in net assets of \$91.5 million, or 4.1% from the prior year. As of September 30, 2011, net assets invested in capital assets, net of related debt, were \$25.4 million. Net assets restricted by bondholders totaled \$2,148.8 million, an increase of \$52.7 million, or 2.5% from the prior year. Unrestricted net assets totaled \$163.0 million, a increase of \$14.1 million, or 9.5%.

***September 30, 2010 Compared to September 30, 2009***

Total assets increased by \$348.2 million from the prior year. Cash and cash equivalents, and investments, combined, increased \$406.0 million, or 37.2% from the prior year. Mortgage and other loans receivables decreased by \$70.9 million, or 0.9%, due to a \$27.1 million increase in the allowance for loan loss and reduced homeownership loan originations during the first quarter of FY 2011.

Total liabilities increased \$242.8 million, or 3.4% from the prior year. Notes and bonds payable increased \$234.4 million, or 3.4% from the prior year. Over the last twelve months, the Authority issued \$642.0 million in single-family homeownership bonds, \$137.9 million in rental housing bonds, and borrowed a net \$215.9 million on lines of credit. Under the New Issuance Bond Program, the Authority has converted \$161.0 million of the \$482.9 million short-term variable rate bonds issued to Treasury. Proceeds from bond issues and lines of credit were a principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,245.7 million, representing an increase in net assets of \$105.4 million, or 4.9% from the prior year. As of September 30, 2010, net assets invested in capital assets, net of related debt, consisted of \$52.8 million in investments in rental property, net of depreciation and amortization and \$23.0 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of \$75.1 million. Net assets restricted by bondholders totaled \$2,096.1 million, an increase of \$122.7 million, or 6.2% from the prior year. Unrestricted net assets totaled \$148.9 million, a decrease of \$14.3 million, or 8.8% from the prior year.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

(In millions)

	<b>Three months ended September 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Operating revenues:</b>			
Interest on mortgage and other loans	\$ 123.8	126.8	128.6
Pass-through grants received	31.0	45.9	17.8
Housing Choice Voucher program income	17.0	18.2	16.3
Other operating revenues	6.5	6.5	6.2
Total operating revenues	<u>178.3</u>	<u>197.4</u>	<u>168.9</u>
<b>Operating expenses:</b>			
Interest on notes and bonds payable	77.8	82.2	87.1
Pass-through grants disbursed	31.0	45.9	17.8
Housing Choice Voucher program expense	18.0	17.2	17.7
Other operating expenses	39.2	30.9	25.3
Total operating expenses	<u>166.0</u>	<u>176.2</u>	<u>147.9</u>
Net operating income	<u>12.3</u>	<u>21.2</u>	<u>21.0</u>
<b>Nonoperating revenues:</b>			
Investment income	6.7	2.7	(0.1)
Other nonoperating revenues	—	—	—
Total nonoperating revenues	<u>6.7</u>	<u>2.7</u>	<u>(0.1)</u>
Change in net assets	<u>\$ 19.0</u>	<u>23.9</u>	<u>20.9</u>

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

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

Included in investment income are \$4.8 million and \$2.7 million of unrealized gains for the quarters ended September 30, 2011 and 2010, respectively. The Authority generally holds these investments to maturity.

***Three months ended September 30, 2011***

Operating revenues decreased \$19.1 million or 9.7% from the prior year. The decrease was primarily attributable to pass-through grants received, which decreased \$14.9 million, or 32.5%, and in particular, the tax credit programs included in the American Recovery and Reinvestment Act of 2009 that the Authority began

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

participating in near the end of FY 2010. Interest on mortgage and other loans decreased \$3.0 million or 2.4% due to lower mortgage loan production. Single family mortgage loan rates averaged 5.75% compared to 5.87% the previous year.

Operating expenses decreased \$10.2 million or 5.8% from the prior year due primarily to pass-through grant disbursements decrease of \$14.9 million. Interest expense on notes and bonds payable decreased \$4.4 million or 5.4% from the prior year, due to a lower average interest rate on the notes and bonds outstanding. Other operating expenses consisting of programmatic and administrative costs increased \$8.3 million or 26.9% above last year. Loan loss provision and expenses accounted for \$5.8 million of the increase and Housing Choice Voucher program costs accounted for \$1.9 million of the increase.

Nonoperating revenues increased \$4.0 million from the prior year, due to unrealized investment gains of \$4.8 million.

***Three months ended September 30, 2010***

Operating revenues increased \$28.5 million or 16.9% from the prior year. The increase was primarily attributable to pass-through grants of \$28.1 million. Interest on mortgage and other loans decreased \$1.7 million reflecting significantly fewer loan originations held compared to the previous year. Interest as a percent of average loans outstanding was 6.28% compared to 6.33% the previous year.

Operating expenses increased \$28.3 million or 19.1% compared to the first quarter of FY 2010. Interest expense on notes and bonds payable decreased \$4.9 million or 5.6% from the prior year. Loan losses and expenses, included in operating expenses, increased \$4.0 million compared to the same quarter in FY 2010. Administrative costs increased \$1.6 million, primarily due to owned property expenses, compared to the same quarter in FY 2010. Expenses for the Housing Choice Voucher program decreased \$0.5 million or 2.8% from the prior year.

Nonoperating revenues increased \$2.8 million compared to the prior year, due to lower realized investment losses and higher investment income.

**Other 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 and taxable financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Short-term investment rates in the United States have declined sharply from approximately 4.82% in July 2007 to 0.15% in September 2010, and 0.01% in September 2011.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multifamily loan portfolio, are influenced by unemployment. Virginia's seasonally adjusted unemployment rate was 6.7% and 6.5% in September 2010 and 2011, respectively.

**Additional Information**

If you have questions about this report or need additional information, please visit the Authority's Web site, [www.vhda.com](http://www.vhda.com), or contact the Finance Division of the Virginia Housing Development Authority.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Net Assets  
September 30, 2011 and 2010  
(Unaudited)

Assets	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents (note 5)	\$ 1,762,915,882	1,354,353,785
Investments (note 5)	3,005,487	3,442,722
Interest receivable – investments	924,005	773,520
Mortgage and other loans receivable, net (note 4)	169,325,708	160,128,613
Interest receivable – mortgage and other loans	37,962,495	38,957,059
	—	12,837
Other real estate owned	34,700,834	35,900,765
Other assets	10,569,820	10,705,546
Total current assets	<u>2,019,404,231</u>	<u>1,604,274,847</u>
Noncurrent assets:		
Investments (note 5)	200,435,848	140,433,458
Mortgage and other loans receivable (note 4)	7,832,796,375	8,020,403,114
Less allowance for loan loss	134,390,041	115,449,711
Less net deferred loan fees	24,031,261	27,592,214
Mortgage and other loans receivable, net	<u>7,674,375,073</u>	<u>7,877,361,189</u>
Investment in rental property, net	63,297,460	52,279,814
Property, furniture, and equipment, less accumulated depreciation and amortization of \$24,013,950 and \$27,556,610, respectively (note 6)	25,321,928	24,099,175
Unamortized bond issuance expenses	5,185,087	6,301,341
Other assets	3,268,442	942,383
Total noncurrent assets	<u>7,971,883,838</u>	<u>8,101,417,360</u>
Total assets	<u>\$ 9,991,288,069</u>	<u>9,705,692,207</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 1,414,221,288	704,053,350
Accrued interest payable on notes and bonds	90,332,482	96,818,197
Housing Choice Voucher contributions payable (note 1)	180,271	—
Escrows (note 8)	63,676,033	57,943,619
Accounts payable and other liabilities (notes 5 and 9)	11,667,605	17,096,771
Total current liabilities	<u>1,580,077,679</u>	<u>875,911,937</u>
Noncurrent liabilities:		
Bonds payable, net (note 7)	5,885,494,316	6,376,290,097
Project reserves (notes 8 and 13)	159,378,359	180,776,730
Other liabilities (notes 5, 9, 11, and 13)	29,185,774	27,013,104
Total noncurrent liabilities	<u>6,074,058,449</u>	<u>6,584,079,931</u>
Total liabilities	<u>7,654,136,128</u>	<u>7,459,991,868</u>
Net assets (note 10):		
Invested in capital assets, net of related debt	25,372,752	692,632
Restricted by bond indentures	2,148,764,636	2,096,361,533
Unrestricted	163,014,553	148,646,174
Total net assets	<u>2,337,151,941</u>	<u>2,245,700,339</u>
Total liabilities and net assets	<u>\$ 9,991,288,069</u>	<u>9,705,692,207</u>

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Revenues, Expenses, and Changes in Net Assets

Three months ended September 30, 2011 and 2010

(Unaudited)

	2011	2010
Operating revenues:		
Interest on mortgage and other loans	\$ 123,815,528	126,839,810
Pass-through grants income	31,054,160	45,876,753
Housing Choice Voucher program income (note 1)	16,975,269	18,176,202
Investment in rental property income	3,677,901	3,128,032
Gains and recoveries on sale of other real estate owned	327,550	377,855
Other	2,462,004	3,009,842
Total operating revenues	178,312,412	197,408,494
Operating expenses:		
Interest on notes and bonds	77,853,407	82,172,856
Salaries and related employee benefits (note 11)	8,399,965	7,663,944
General operating expenses	4,162,575	3,770,646
Note and bond expenses	166,726	(42,655)
Amortization of bond issuance expenses	70,702	167,855
Pass-through grants expenses	31,054,160	45,876,753
Housing Choice Voucher program expenses (note 1)	17,969,629	17,257,237
External mortgage servicing expenses	184,060	322,323
Investment in rental property expenses	5,295,689	3,929,660
Losses and expenses on other real estate owned	14,067,138	6,173,401
Provision for loan losses (note 1)	6,862,093	8,960,263
Total operating expenses	166,086,144	176,252,283
Operating income, net	12,226,268	21,156,211
Nonoperating revenues:		
Investment income (note 9)	6,720,080	2,708,749
Other, net	22,509	22,324
Total nonoperating revenues	6,742,589	2,731,073
Change in net assets	18,968,857	23,887,284
Total net assets, beginning of year	2,318,183,084	2,221,813,055
Total net assets, at September 30	\$ 2,337,151,941	2,245,700,339

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Three months ended September 30, 2011 and 2010

(Unaudited)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (152,211,538)	(203,044,429)
Principal repayments on mortgage and other loans	196,251,248	172,914,103
Sale of mortgage loans	—	42,896,802
Interest received on mortgage and other loans	120,116,875	125,824,457
Pass-through grants received	31,054,160	45,876,753
Pass-through grants disbursed	(31,054,160)	(45,876,753)
Housing Choice Voucher payments received	16,932,979	18,155,813
Housing Choice Voucher payments disbursed	(17,970,749)	(17,361,390)
Escrow and project reserve payments received	65,920,813	81,944,536
Escrow and project reserve payments disbursed	(54,007,979)	(61,038,512)
Other operating revenues	1,822,020	4,067,246
Cash received for loan origination fees	2,043,010	1,465,288
Cash paid for loan origination fees	(2,120,723)	(1,837,374)
Cash payments for salaries and related benefits	(8,532,784)	(7,975,796)
Cash payments for general operating expenses	(4,981,481)	(8,953,607)
Cash payments for mortgage servicing expenses	(26,382)	(278,021)
Proceeds from sale of other real estate owned	9,688,759	5,427,848
Investment in rental property	(6,576,706)	1,274,391
Net cash provided by operating activities	<u>166,347,362</u>	<u>153,481,355</u>
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	562,170,000	123,190,000
Principal payments on notes and bonds	(236,067,062)	(111,907,103)
Interest payments on notes and bonds	(84,265,288)	(89,082,683)
Cash payments for bond issuance expenses	(703,844)	(504,762)
Net cash used in noncapital financing activities	<u>241,133,806</u>	<u>(78,304,548)</u>
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(1,118,559)	(293,967)
Net cash used in capital and related financing activities	<u>(1,118,559)</u>	<u>(293,967)</u>
Cash flows from investing activities:		
Purchases of investments	(43,811,550)	(23,153,447)
Proceeds from sales or maturities of investments	9,374,990	82,363,160
Interest received on investments	(120,079)	1,384,206
Net cash provided by (used in) investing activities	<u>(34,556,639)</u>	<u>60,593,919</u>
Net increase in cash and cash equivalents	371,805,970	135,476,759
Cash and cash equivalents, at beginning of year	<u>1,391,109,912</u>	<u>1,218,877,026</u>
Cash and cash equivalents, at September 30	<u>\$ 1,762,915,882</u>	<u>1,354,353,785</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Three months ended September 30, 2011 and 2010

(Unaudited)

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,226,268	21,156,211
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of property, furniture, and equipment	796,571	694,330
Other depreciation and amortization	70,702	1,198,595
Interest on notes and bonds	77,853,405	82,172,856
(Increase) in investment in rental property, net	(4,958,917)	(7,003,016)
Decrease in mortgage and other loans receivable	50,984,265	29,586,885
Increase in allowance for loan loss	6,862,093	8,960,263
(Decrease) increase in net deferred loan fees	(249,796)	197,302
(Increase) decrease in interest receivable – mortgage and other loans	428,189	(599,103)
(Increase) decrease in other real estate owned	11,171,379	(1,457,836)
Decrease in Housing Choice Voucher contributions receivable	(32,634)	(20,389)
(Increase) decrease in other assets	(178,592)	1,146,934
(Decrease) in accounts payable and other liabilities	(538,405)	(3,457,701)
(Decrease) increase in escrows and project reserves	11,912,834	20,906,024
Net cash provided by operating activities	<u>\$ 166,347,362</u>	<u>153,481,355</u>
Supplemental disclosure of noncash investing activity:		
Increase in other real estate owned as a result of loan foreclosures	<u>\$ 12,256,698</u>	<u>10,166,392</u>

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(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, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act 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 (GAAP). See note 2 for further discussion.

**(b) Measurement Focus and Basis of Accounting**

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic 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 GAAP, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

**(c) Use of Estimates**

The preparation of basic financial statements, in conformity with GAAP, 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 basic 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 Statements of Net Assets, with changes in fair market value recognized in investment income in the Statements 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.

**(e) Investment in Rental Property**

Investment in rental property represents several multi-family apartment complexes, including the related property, furniture, and equipment. These assets are recorded at cost and are depreciated

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

using the straight-line method over the estimated useful lives, which are 30 years for buildings, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investments are carried net of accumulated depreciation of \$16,528,932 as of September 30, 2011 and \$13,351,166 as of September 30, 2010. These investments are also tested for impairment when triggers are identified.

**(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.

The Authority is an Issuer in the Government National Mortgage Association (Ginnie Mae) Mortgage-Backed Securities (MBS) Programs. Through the Ginnie Mae MBS Programs, Ginnie Mae guarantees securities that are issued by the Authority and backed by pools of mortgage loans originated by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Accordingly, the Authority no longer recognizes the sold mortgage loans receivable in the Statements of Net Assets.

**(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 and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses approximated \$6,862,093 and \$8,960,263 for the three months ended September 30, 2011 and 2010, respectively.

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

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment is \$1,000 and the capitalization threshold for internally generated computer software (reported in furniture and equipment) is \$1,000,000.

**(i) *Bond Issuance Expense***

Costs related to issuing bonds are capitalized in the related bond group and are amortized on the straight-line basis, which approximates the effective interest method, over the lives of the bonds.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(j) Other Real Estate Owned**

Other real estate owned represents current investments in rental property, acquired primarily 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 Statements 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 unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially 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 are subject to partial redemption, without premium, from mandatory sinking fund installments.

**(l) Retirement Plans**

The Authority has three defined contribution employees' retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% 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 under a defined benefit plan 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.

In accordance with GAAP, provisions consist of standards for the measurement, recognition, and disclosure of OPEB expenses and actuarially accrued liabilities associated with OPEB as well as the extent to which progress has been made in funding the plan.

**(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) Pass-Through Revenues and Expenses**

**U.S. Department of Housing and Urban Development – Project Based Section 8**

As the Commonwealth's administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

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 \$18,092,855 and \$18,319,735 during the three months ended September 30, 2011 and 2010, respectively.

**U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program**

The Authority serves as an administrator for thirty HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority received and disbursed pass-through grants totaling \$44,550 and \$51,581 during the first quarter of fiscal year 2012 and 2011, respectively.

**NeighborWorks America**

The Authority is an administrator for NeighborWorks America, a national nonprofit organization created by the U.S. Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Twenty one nonprofit agencies are assisted by NeighborWorks funds administered by the Authority. The Authority received and disbursed pass-through grants totaling \$138,171 during the first quarter of fiscal year 2012 and \$55,824 during the first quarter of fiscal year 2011.

**U.S. Department of the Treasury – Low-Income Housing Grants in Lieu of Tax Credit Allocations for 2009 (Tax Credit Exchange)**

As the housing credit administrator for the Commonwealth, the Authority administers the Tax Credit Exchange program, which was created by the American Recovery and Reinvestment Act of 2009. Grants are received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The Authority received and disbursed \$11,053,481 and \$18,079,699 of assistance during the first quarter of fiscal years 2012 and 2011, respectively.

**U.S. Department of Housing and Urban Development – Tax Credit Assistance Program**

The Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects via a formula-based allocation to state housing credit allocation agencies. The Authority is the housing credit administrator in the Commonwealth. The housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. The Authority received and disbursed \$1,699,628 of assistance during the first quarter of fiscal year 2012 and \$9,369,914 during the first quarter fiscal year 2011.

**(o) *Housing Choice Voucher Program***

As the Commonwealth's 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.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

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 Statements of Revenues, Expenses and Changes in Net Assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled \$4,008,769 and \$775,225, respectively, as of September 30, 2011 and \$3,821,266 and \$1,421,520, respectively, as of September 30, 2010. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

**(p) 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 develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of \$8,417,025 and \$8,215,709 as of September 30, 2011 and 2010, respectively.

**(q) Cash Equivalents**

For purposes of the Statements of Cash Flows, cash equivalents consist of investments with original maturities of three months or less from the date of purchase.

**(r) Rebatable Arbitrage**

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

**(s) Statements of Net Assets**

The assets presented in the Statements of Net Assets represent the total of similar accounts of the Authority's various groups (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. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(t) *Operating and Nonoperating Revenues and Expenses***

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets distinguish 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 and ownership, 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.

**(u) *Reclassifications***

Certain reclassifications have been made in the September 30, 2010 basic financial statements to conform to the September 30, 2011 presentation.

**(2) *Basis of Presentation***

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

**(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) *Rental Housing Bond Groups***

The proceeds of the 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 the General Purpose 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.

**(e) *Homeownership Mortgage Bond Group***

The Homeownership Mortgage bond group was established on December 2, 2009 and encompasses the Authority's participation in the U.S. Department of the Treasury Single Family New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(3) Restricted Assets**

Restricted assets are primarily assets held for the benefit of the respective bond owners and include mortgage loans, debt service and debt reserves, and investments. Certain assets are held on behalf of Federal programs or housing initiatives of the Commonwealth.

Restricted assets as of September 30, 2011 and 2010 were as follows:

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 918,959,396	954,836,521
Investments	—	—
Interest receivable – investments	657,159	412,649
Mortgage and other loans receivable	166,728,264	157,988,042
Interest receivable – mortgage and other loans	36,823,417	37,927,920
Housing Choice Voucher contributions receivable	—	12,837
Other real estate owned	33,914,018	35,543,805
Other assets	7,053,143	6,138,513
Total current assets	<u>1,164,135,397</u>	<u>1,192,860,287</u>
Noncurrent assets:		
Investments	150,216,123	80,756,946
Mortgage and other loans receivable	7,746,175,734	7,962,810,076
Less allowance for loan loss	126,901,214	112,032,587
Less net deferred loan fees	23,410,277	27,180,049
Mortgage and other loans receivable, net	<u>7,595,864,243</u>	<u>7,823,597,440</u>
Investment in rental property, net	63,297,460	51,527,832
Property, furniture, and equipment, less accumulated depreciation and amortization of \$14,696,454 and \$14,424,395, respectively	15,459,213	15,655,021
Unamortized bond issuance expenses	4,825,087	5,912,549
Other assets	—	360,938
Total noncurrent assets	<u>7,829,662,126</u>	<u>7,977,810,726</u>
Total restricted assets	<u>\$ 8,993,797,523</u>	<u>9,170,671,013</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(4) Mortgage and Other Loans Receivable**

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. The following are the interest rates and typical loan terms by loan program or bond group for the major loan programs:

<u>Loan program/bond group</u>	<u>Interest rates</u>	<u>Initial loan terms</u>
General Operating Accounts	0% to 9.14%	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	1.13% to 10.38%	Thirty years
Homeownership Mortgage Bond Group	2.88% to 5.88%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at September 30, 2011:

	<u>Committed</u>	<u>Uncommitted</u>
General Operating Loan Programs	\$ 13,657,402	—
VHDA General Purpose Bond Group	3,102,471	1,254,678
Rental Housing Bond Group	84,459,107	—
Commonwealth Mortgage Bond Group	57,891,160	—
Homeownership Bond Group	—	211,227,920
Total	<u>\$ 159,110,140</u>	<u>212,482,598</u>

Uncommitted funds represent the excess of net current funds over existing loan commitments.

**(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 September 30, 2011 and 2010, the carrying amount of the Authority's deposits was \$148,521,664 and \$49,836,556 respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were \$318,910 and \$3,138,727, respectively. The associated bank balance of the Authority's deposits was \$148,827,542 and \$52,843,161 at September 30, 2011 and 2010, 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 from date of purchase. 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. At September 30, 2011 and 2010, total cash equivalents were \$1,614,394,218 and \$1,304,517,229, respectively.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

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

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
Current investments	\$ 3,005,487	3,442,722
Noncurrent investments	200,435,848	140,433,458
Total investments	\$ 203,441,335	143,876,180

The Investment of Public Funds Act of the Code of Virginia permits political subdivisions of the Commonwealth to invest in open repurchase agreements and money market securities that are collateralized with securities that are approved for direct investment. Within the permitted statutory framework, the Authority's investment policy requires securities collateralizing repurchase agreements to maintain a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement, and no more than 2% of the Authority's total assets may be invested in any one entity, exclusive of overnight repurchase agreements and short term investments with a maturity not to exceed six months.

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.

**(a) 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. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

As of September 30, 2011, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Corporate notes	\$ —	892,723	—	—	892,723
Municipal securities	11,461,409	2,287,448	—	—	13,748,857
Asset-backed securities	—	—	—	30,423,448	30,423,448
Agency-mortgage backed securities	—	—	—	163,956,308	163,956,308
U.S. Government & Agency securities	—	—	—	—	—
Money market securities	776,495,200	—	—	—	776,495,200
Other interest-bearing securities	832,319,017	—	—	—	832,319,017
Total investments	<u>\$ 1,620,275,626</u>	<u>3,180,171</u>	<u>—</u>	<u>194,379,756</u>	<u>1,817,835,553</u>

As of September 30, 2010, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Corporate notes	\$ —	920,348	—	—	920,348
Municipal securities	4,301,121	10,504,799	—	—	14,805,920
Asset-backed securities	—	—	—	37,104,336	37,104,336
Agency-mortgage backed securities	—	—	—	91,903,977	91,903,977
U.S. Government & Agency securities	149,921,750	—	—	—	149,921,750
Money market securities	787,097,402	—	—	—	787,097,402
Other interest-bearing securities	366,639,676	—	—	—	366,639,676
Total investments	<u>\$ 1,307,959,949</u>	<u>11,425,147</u>	<u>—</u>	<u>129,008,313</u>	<u>1,448,393,409</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**Credit Risk**

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of September 30, 2011:

<u>Investment type</u>	<u>Amount</u>	<u>S &amp; P/ Moody's rating</u>	<u>Percentage of total investments</u>
Other Interest Bearing Instruments	\$ 832,319,018	Aaa	45.786%
Money Market Securities	776,495,200	P-1	42.715%
Agency Mortgage Backed Securities	163,956,308	Aaa	9.019%
Asset Backed Securities	17,268,479	Caa1	0.950%
Municipal Securities	5,580,000	NR	0.307%
Municipal Securities	4,731,707	Aaa	0.260%
Asset Backed Securities	4,452,257	Caa2	0.245%
Asset Backed Securities	2,244,921	Ba2	0.123%
Municipal Securities	1,742,269	Aa1	0.096%
Asset Backed Securities	1,582,982	Caa3	0.087%
Asset Backed Securities	1,490,218	Ba1	0.082%
Asset Backed Securities	1,143,080	Ca	0.063%
Municipal Securities	1,000,000	BBB	0.055%
Asset Backed Securities	998,507	Aa3	0.055%
Corporate Notes	892,723	A2	0.049%
Asset Backed Securities	759,407	A2	0.042%
Asset Backed Securities	483,596	Baa2	0.027%
Municipal Securities	444,881	Aa2	0.024%
Municipal Securities	250,000	Aa3	0.014%
Asset Backed Securities	1	C	0.000%
Total investments	<u>\$ 1,817,835,554</u>		<u>1.000</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

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

Activity in the property, furniture, and equipment accounts for the three months ended September 30, 2011 was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance September 30, 2011</u>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	31,107,556	—	—	—	31,107,556
Furniture and equipment	13,042,276	76,485	(220,984)	1,303,777	14,201,554
Motor vehicles	421,688	78,276	—	—	499,964
Construction in progress	930,968	963,798	—	(1,303,777)	590,989
	<u>\$ 48,438,303</u>	<u>1,118,559</u>	<u>(220,984)</u>	<u>—</u>	<u>49,335,878</u>

Activity in the related accumulated depreciation and amortization accounts during three months ended September 30, 2011 was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance September 30, 2011</u>
Building	\$ (14,420,363)	(194,375)	—	(14,614,738)
Furniture and equipment	(8,685,510)	(585,888)	220,984	(9,050,414)
Motor vehicles	(332,490)	(16,308)	—	(348,798)
	<u>\$ (23,438,363)</u>	<u>(796,571)</u>	<u>220,984</u>	<u>(24,013,950)</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Activity in the property, furniture, and equipment accounts for the three months ended September 30, 2010 was as follows:

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance September 30, 2010</b>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	30,681,045	617	—	—	30,681,662
Furniture and equipment	16,873,307	195,688	(540,294)	—	16,528,701
Motor vehicles	421,688	—	—	—	421,688
Construction in progress	990,257	97,662	—	—	1,087,919
	<u>\$ 51,902,112</u>	<u>293,967</u>	<u>(540,294)</u>	<u>—</u>	<u>51,655,785</u>

Activity in the related accumulated depreciation and amortization accounts during the three months ended September 30, 2010 was as follows:

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance September 30, 2010</b>
Building	\$ (13,615,443)	(190,715)	—	(13,806,158)
Furniture and equipment	(13,503,934)	(491,220)	540,009	(13,455,145)
Motor vehicles	(282,912)	(12,395)	—	(295,307)
	<u>\$ (27,402,289)</u>	<u>(694,330)</u>	<u>540,009</u>	<u>(27,556,610)</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2011 and September 30, 2011, and changes for the three months, were as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at September 30, 2011</u>
(Amounts shown in thousands)				
General operating accounts:				
Revolving line of credit:				
Bank of America				
floating daily rate (rate of 1.135% at September 30, 2011) termination date of December 1, 2011	\$ 40,000	—	40,000	—
Federal Home Loan Bank				
floating daily rate (rate of 0.08% at September 30, 2011) no fixed maturity	494,171	358,070	—	852,241
Total general operating accounts	<u>\$ 534,171</u>	<u>358,070</u>	<u>40,000</u>	<u>852,241</u>
Rental housing bond group:				
2001 Series A/B, dated January 9, 2001, 5.80% effective interest rate, final due date March 1, 2025	12,970	—	—	12,970
2001 Series C/D, dated March 22, 2001, 5.25% effective interest rate, final due date June 1, 2024	6,790	—	—	6,790
2001 Series E/F/G, dated April 26, 2001, 5.32% effective interest rate, final due date June 1, 2025	10,280	—	—	10,280
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	39,250	—	1,700	37,550
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	49,460	—	—	49,460

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
(Amounts shown in thousands)				
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	\$ 35,105	—	—	35,105
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	29,660	—	—	29,660
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	19,360	—	—	19,360
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	35,205	—	—	35,205
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	53,915	—	1,860	52,055
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	63,750	—	—	63,750
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	44,960	—	—	44,960
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	46,455	—	—	46,455
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	64,510	—	—	64,510
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	44,225	—	—	44,225

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	\$ 14,920	—	—	14,920
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	63,430	—	—	63,430
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	44,940	—	—	44,940
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	50,570	—	1,445	49,125
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	34,565	—	—	34,565
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	35,235	—	—	35,235
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	54,090	—	—	54,090
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	38,635	—	950	37,685
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	42,635	—	785	41,850
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	83,385	—	—	83,385
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	35,530	—	—	35,530

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at September 30, 2011</u>
		(Amounts shown in thousands)		
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	\$ 37,140	—	—	37,140
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,085	—	—	8,085
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	22,595	—	—	22,595
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	43,675	—	—	43,675
2006 Series DEF, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	79,060	—	590	78,470
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	117,395	—	1,475	115,920
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	22,935	—	—	22,935
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	194,360	—	—	194,360
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	71,865	—	—	71,865
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	28,655	—	—	28,655

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
2009 Series CD, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	\$ 334,490	—	6,770	327,720
2009 Series E, dated September 24, 2009, 4.71% effective interest rate, final due date October 1, 2044.	52,185	—	—	52,185
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	49,370	—	—	49,370
2010 Series A, dated March 23, 2010, 4.80% effective interest rate, final due date April 1, 2045	21,005	—	—	21,005
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,750	—	—	22,750
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045	11,790	—	—	11,790
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040	33,000	—	—	33,000
2010 Series E, dated October 7, 2010, 4.177% effective interest rate, final due date October 1, 2045	38,405	—	—	38,405
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041	19,700	—	—	19,700
2011 Series A, dated May 24, 2011 4.93% effective interest rate, final due date May 1, 2041	11,700	—	—	11,700
2011 Series B, dated September 27, 2011, 4.21% effective interest rate, final due date October 2, 2041.	—	17,480	—	17,480
	<u>2,273,990</u>	<u>17,480</u>	<u>15,575</u>	<u>2,275,895</u>
Unamortized premium	6,328			6,960
Total rental housing bonds	<u>\$ 2,280,318</u>			<u>2,282,855</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
VHDA General purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	\$ 61,050	—	2,200	58,850
2002 Series X/Y/Z, dated October 31, 2002, 4.85% effective interest rate, final due date January 1, 2043	179,200	—	1,510	177,690
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	24,800	—	—	24,800
2003 Series R/S/T/U, dated October 30, 2003 4.68% effective interest rate, final due date October 1, 2038	60,860	—	—	60,860
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	27,775	—	—	27,775
	<u>353,685</u>	<u>—</u>	<u>3,710</u>	<u>349,975</u>
Unamortized premium	1,938			1,993
Total VHDA general purpose bonds	<u>\$ 355,623</u>			<u>351,968</u>
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.64% effective interest rate, final due date February 25, 2030	1,015	—	9	1,006
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	183,000	—	—	183,000
2002 Series A, dated January 14, 2002, 6.60% effective interest rate, final due date February 25, 2032	5,277	—	34	5,243

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
2002 Series B, dated March 20, 2002, 6.16% effective interest rate, final due date August 25, 2030	\$ 21,988	—	711	21,277
2002 Series E/F/G, dated December 17, 2002, 5.14% effective interest rate, final due date December 25, 2032	19,735	—	636	19,099
2003 Series C, dated October 1, 2003, 5.09% effective interest rate, final due date August 25, 2033	1,570	—	232	1,338
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029	110,880	—	3,380	107,500
2004 Series B, dated June 10, 2004, 5.63% effective interest rate, final due date June 25, 2034	4,897	—	337	4,560
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	116,610	—	3,470	113,140
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	303,010	—	10,000	293,010
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, 4.41% effective interest rate, final due date October 1, 2032	336,670	—	5,400	331,270
2006 Series AB, dated April 27, 2006, 5.86% effective interest rate, final due date March 25, 2036	7,263	—	234	7,029
2006 Series C, dated June 8, 2006, 6.14% effective interest rate, final due date June 25, 2034	35,935	—	1,246	34,689

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
2006 Series DEF, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	\$ 482,205	—	10,000	472,205
2007 Series ABCD, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	936,625	—	12,900	923,725
2008 Series A, dated March 25, 2008, 6.06% effective interest rate, final due March 25, 2038	66,327	—	2,310	64,017
2008 Series B, dated April 10, 2008, 6.09% effective interest rate, final due date March 25, 2038	98,896	—	3,202	95,694
2008 Series C, dated November 18, 2008, 6.39% effective interest rate, final due date June 25, 2038	38,662	—	807	37,855
2008 Series DE, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	187,910	—	2,105	185,805
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	51,750	—	—	51,750
	<u>3,056,345</u>	<u>—</u>	<u>57,013</u>	<u>2,999,332</u>
Unamortized premium	21,998			22,608
Total commonwealth mortgage bonds group	<u>\$ 3,078,343</u>			<u>3,021,940</u>
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.184% effective interest rate, final due date November 1, 2041	111,970	—	111,970	—
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	160,990	—	4,800	156,190

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Description	Balance at June 30, 2011	Issued	Retired	Balance at September 30, 2011
		(Amounts shown in thousands)		
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	\$ 104,130	—		104,130
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041	105,000	—	3,000	102,000
2010 Series B, dated October 29, 2010, 2.948% effective interest rate, final due date March 1, 2022	67,500	—	—	67,500
2011 Series B-3, dated June 14, 2011 3.71% effective interest rate, final due date November 1, 2041	105,000	—	—	105,000
2011 Series A, dated June 14, 2011 3.27% effective interest rate, final due date March 1, 2024	70,000	—	—	70,000
2009 Series B-4, dated September 27, 2011, 0.75% effective interest rate, final due date November 26, 2011.	—	111,970	—	111,970
2011 Series B, dated September 27, 2011, 3.09% effective interest rate, final due date September 1, 2024..	—	74,650	—	74,650
	<u>724,590</u>	<u>186,620</u>	<u>119,770</u>	<u>791,440</u>
Unamortized discount	(675)			(728)
Total homeownership mortgage bonds group	<u>\$ 723,915</u>			<u>790,711</u>
Total	<u>\$ 6,972,370</u>			<u>7,299,715</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

Notes and bonds payable at June 30, 2010 and September 30, 2010 and changes for the three months were as follows (amounts in thousands):

	<u>June 30, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Change in unamortized premium and compound interest payable</u>	<u>September 30 2011</u>
General operating accounts	\$ 327,990	78,400	—		406,390
Rental housing bond group	2,423,313	44,790	50,060	277	2,418,320
Homeownership mortgage bond group	589,838	—	—	159	589,997
VHDA General purpose bond group	401,099	—	3,565	85	397,619
Commonwealth mortgage bond group	<u>3,325,353</u>	<u>—</u>	<u>58,282</u>	<u>946</u>	<u>3,268,017</u>
Total	<u>\$ 7,067,593</u>	<u>123,190</u>	<u>111,907</u>	<u>1,467</u>	<u>7,080,343</u>

Current and noncurrent amounts of notes and bonds payable at September 30, 2011 and 2010 were as follows:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
	(Amount in thousands)	
Notes and bonds payable – current	\$ 1,414,221	704,053
Bonds payable – noncurrent	<u>5,885,494</u>	<u>6,376,290</u>
Total	<u>\$ 7,299,715</u>	<u>7,080,343</u>

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. There were no refundings for the three months ended September 30, 2011 and 2010.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing October 1, 2011 and thereafter are as follows:

<u>Period ending September 30</u>	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
2012	\$ 1,394,221,288	293,726,521	1,687,947,809
2013	278,435,000	278,807,621	557,242,621
2014	277,265,000	267,830,989	545,095,989
2015	271,950,000	256,476,177	528,426,177
2016	270,160,000	244,778,071	514,938,071
2017-2021	1,311,690,000	1,037,736,754	2,349,426,754
2022-2026	1,033,270,000	747,377,946	1,780,647,946
2027-2031	1,001,405,848	486,822,650	1,488,228,498
2032-2036	753,174,015	263,601,081	1,016,775,096
2037-2041	593,942,041	79,089,525	673,031,566
2042-2046	63,370,000	6,248,366	69,618,366
Total \$	<u>7,248,883,192</u>	<u>3,962,495,701</u>	<u>11,211,378,893</u>

The Authority has a \$100 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The agreement will terminate on December 1, 2011 unless extended by Bank of America and the Authority. All amounts outstanding are due and payable on the termination date. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus 95 basis points per annum, 110 basis points per annum or 125 basis points per annum based upon the Authority's long-term credit ratings of AA or higher, A, or BBB or lower, respectively. All amounts outstanding at a given time are due and payable on the termination date. The Authority is in compliance with all debt covenant requirements. At September 30, 2011 and 2010, there were zero and \$40 million amounts outstanding, respectively.

The Authority has a \$150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 28, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority's long-term credit ratings and the duration outstanding. All amounts outstanding at a given time are due and payable on the termination date. At September 30, 2011 and 2010, there were no amounts outstanding.

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance is charged under a floating daily rate, which amounted to 0.08% on September 30, 2011 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At September 30, 2011, \$852.24 million was outstanding and \$366.39 million was outstanding at September 30, 2010.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

**(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 (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At September 30, 2011 and 2010, these escrows and project reserves were presented in the Authority's Statements of Net Assets as follows:

	September 30	
	2011	2010
Escrows – current	\$ 63,676,033	57,943,619
Project reserves – noncurrent	159,378,359	180,776,730
Total	\$ 223,054,392	238,720,349

**(9) Investment Income and Arbitrage Liabilities**

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Homeownership Bond Group, Rental Housing Bond Group, and VHDA General Purpose 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. Rebates paid were \$1,788,597 and \$389,133 for the three months ended September 30, 2011 and 2010, respectively. Remaining liability balances were \$180,710 and \$2,054,261 at September 30, 2011 and 2010, respectively.

**(10) Net Assets**

Invested in 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 September 30, 2011 and 2010, such plans 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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

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.

**(11) Employee Benefits Plans**

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the three months ended September 30, 2011 and 2010 was \$585,898 and \$533,558 respectively.

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

As of September 30, 2011 and 2010, included in other liabilities, is an employee compensated absences accrual of \$3,967,294 and \$3,498,675 respectively (note 13).

**(12) Other Post-Employment Benefits**

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2011, there were approximately 52 participating retirees and spouses and 306 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2011 of \$980,913 was approximately 4.3% of covered payroll.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

The actuarially determined values for disclosure in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 2009	\$ (29,738)	895,410	(2,082)	2,316	12.84	\$ 895,644
June 30, 2010	(106,007)	964,000	(6,625)	5,038	21.04	962,413
June 30, 2011	(39,238)	980,913	(2,452)	1,865	21.04	980,325

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2009 through 2011 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation	Net OPEB obligation (asset) balance
June 30, 2009	\$ (29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)
June 30, 2011	(39,238)	980,325	(950,000)	30,325	(8,913)

For the year ended June 30, 2011, the Authority's Annual OPEB cost was \$980,325; the percentage of Annual OPEB Cost Contribution was 96.9%; and the ending net OPEB asset was \$8,913. For the year ended June 30, 2010, the Authority's Annual OPEB cost was \$962,413; the percentage of Annual OPEB Cost Contribution was 93.0%; and the ending net OPEB asset was \$39,238.

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of December 31, 2010, the unfunded actuarial accrued liability (UAAL) for benefits was \$5,460,241. The covered payroll (annual payroll of active employees covered by the RHC) was \$22,973,051 and the ratio of the UAAL to the covered payroll was 23.8%. As of December 31, 2010, the actuarial value of net assets held by the RHC Trust was \$12,337,427, the actuarial accrued liability was \$17,797,668, and the funded ratio was 69.3%. As of June 30, 2011, the RHC Trust had \$12,710,211 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.0% initially, reduced by decrements to an ultimate rate of 5.5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The UAAL was amortized over 30 years in calculating the fiscal year 2011 ARC.

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

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the three months ended September 30, 2011 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at September 30, 2011</u>
Project reserves	\$ 166,442,678	9,485,944	16,550,263	159,378,359
Commonwealth Priority Housing				
Fund liability	8,005,328	7,505,388	7,502,773	8,007,943
Other liabilities	16,954,686	2,385,322	2,129,471	17,210,537
Compensated absences payable	4,050,459	417,893	501,058	3,967,294
Total	<u>\$ 195,453,151</u>	<u>19,794,547</u>	<u>26,683,565</u>	<u>188,564,133</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the three months ended September 30, 2010 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at September 30, 2010</u>
Project reserves	\$ 174,820,180	28,404,021	22,447,471	180,776,730
Commonwealth Priority Housing				
Fund liability	8,098,766	20,569	32,986	8,086,349
Other liabilities	16,839,387	2,144,209	3,555,515	15,428,081
Compensated absences payable	3,763,412	213,702	478,440	3,498,674
Total	<u>\$ 203,521,745</u>	<u>30,782,501</u>	<u>26,514,412</u>	<u>207,789,834</u>

**(14) Contingencies and Other Matters**

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

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

September 30, 2011 and 2010

(Unaudited)

The Authority participates in several Federal financial assistance programs, principal of which are the HUD loan guarantee programs. 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, 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.

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the Commonwealth of Virginia)

## Required Supplementary Information

## Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date

(Unaudited)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability</u>	<u>Unfunded actuarial accrued liability</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded as a percent of covered payroll</u>
December 31, 2007	\$ 8,631,596	10,747,191	2,115,595	80.3%	\$ 20,479,198	10.3%
December 31, 2008	7,880,680	12,016,655	4,135,976	65.6	21,830,868	18.9
December 31, 2009	10,333,985	16,280,849	5,946,864	63.5	22,527,041	26.4
December 31, 2010	12,337,427	17,797,668	5,460,241	69.3	22,973,051	23.8

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of December 31, 2010, the UAAL for benefits was \$5,460,241. The covered payroll (annual payroll of active employees covered by the RHC) was \$22,973,051 and the ratio of the UAAL to the covered payroll was 23.8%. The Authority established the RHC Trust fund in November 2006 and as of the actuarial valuation date of December 31, 2010, the actuarial value of net assets held by the RHC Trust was \$12,337,427, the actuarial accrued liability was \$17,797,668 and the funded ratio was 69.3%. As of June 30, 2011, the RHC Trust had \$12,710,211 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.0% initially, reduced by decrements to an ultimate rate of 5.5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The UAAL was amortized over 30 years in calculating the 2010-11 fiscal year ARC.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

September 30, 2011

(Unaudited)

Assets	General Operating Accounts	VHDA			Total
		Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	
Current assets:					
Cash and cash equivalents	\$ 1,071,043,974	119,728,829	20,989,257	236,078,796	1,762,915,882
Investments	3,005,487	—	—	—	3,005,487
Interest receivable – investments	269,074	30,820	28,287	41,405	924,005
Mortgage and other loans receivable	2,597,444	60,467,264	22,452,346	11,564,986	169,325,708
Interest receivable – mortgage and other loans	1,175,190	16,789,220	2,509,631	1,795,219	37,962,495
Other real estate owned	786,816	698,944	1,272,111	—	34,700,834
Other assets	6,333,839	413,479	353,015	—	10,569,820
Total current assets	1,085,211,825	198,128,556	47,604,647	249,480,406	2,019,404,231
Noncurrent assets:					
Investments	58,290,794	—	892,723	—	200,435,848
Mortgage and other loans receivable	100,520,649	2,837,211,378	476,168,169	553,552,762	7,832,796,375
Less allowance for loan loss	7,488,827	50,142,206	10,421,547	1,515,982	134,390,041
Less net deferred loan fees	622,650	40,637,238	3,041,115	(4,174,074)	24,031,261
Mortgage and other loans receivable, net	92,409,172	2,746,431,934	462,705,507	556,210,854	7,674,375,073
Investment in rental property, net	—	53,959,854	9,337,606	—	63,297,460
Property, furniture, and equipment, net	9,865,530	7,029,786	8,426,612	—	25,321,928
depreciation and amortization of \$24,013,950	360,000	1,309,416	1,205,562	1,139,325	5,185,087
Unamortized bond issuance expenses	3,268,442	—	—	—	3,268,442
Other assets	164,193,938	2,808,730,990	482,568,010	557,350,179	7,971,883,838
Total noncurrent assets	1,249,405,763	3,006,859,546	530,172,657	806,830,585	9,991,288,069
Total assets	\$ 1,249,405,763	\$ 3,006,859,546	\$ 530,172,657	\$ 806,830,585	\$ 9,991,288,069

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets  
September 30, 2011  
(Unaudited)

	General Operating Accounts	Rental Housing Bond		VHDA General Purpose Bond		Commonwealth Mortgage Bond		Home-ownership Bond		Total
		Group	Group	Group	Group	Group	Group	Group	Group	
<b>Liabilities and Net Assets</b>										
Current liabilities:										
Notes and bonds payable	\$ 852,240,752	173,110,000	11,655,000	354,115,536	23,100,000	1,414,221,288				
Accrued interest payable on notes and bonds	41,808	37,560,073	5,709,280	45,270,445	1,750,876	90,332,482				
Housing Choice Voucher contributions payable	180,271	—	—	—	—	180,271				
Escrows	63,676,033	—	—	—	—	63,676,033				
Accounts payable and other liabilities	6,707,518	253,841	160,550	4,545,696	—	11,667,605				
Total current liabilities	922,846,382	210,923,914	17,524,830	403,931,677	24,850,876	1,580,077,679				
Noncurrent liabilities:										
Bonds payable, net	159,378,359	2,109,745,113	340,313,016	2,667,824,793	767,611,394	5,885,494,316				
Project reserves	—	—	—	—	—	159,378,359				
Other liabilities	(5,699,062)	29,603,934	4,622,101	658,801	—	29,185,774				
Total noncurrent liabilities	153,679,297	2,139,349,047	344,935,117	2,668,483,594	767,611,394	6,074,058,449				
Total liabilities	1,076,525,679	2,350,272,961	362,459,947	3,072,415,271	792,462,270	7,654,136,128				
Net assets:										
Invested in capital assets, net of related debt	9,865,530	18,212,335	(2,705,113)	—	—	25,372,752				
Restricted by bond indentures	—	638,374,250	170,417,824	1,325,604,247	14,368,315	2,148,764,636				
Unrestricted	163,014,553	—	—	—	—	163,014,553				
Total net assets	172,880,083	656,586,585	167,712,711	1,325,604,247	14,368,315	2,337,151,941				
Total liabilities and net assets	\$ 1,249,405,762	3,006,859,546	530,172,658	4,398,019,518	806,830,585	9,991,288,069				

See accompanying notes to financial statements.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

Three months ended September 30, 2011

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	\$ 869,394	51,304,281	8,582,380	57,056,449	6,003,024	123,815,528
Pass-through grants income	31,054,160	—	—	—	—	31,054,160
Housing Choice Voucher program income	16,975,269	—	—	—	—	16,975,269
Investment in rental property income	—	2,831,728	846,173	—	—	3,677,901
Gains and recoveries on sale of other real estate owned	—	—	20,875	306,675	—	327,550
Other	2,068,566	242,108	139,999	11,331	—	2,462,004
Total operating revenues	50,967,389	54,378,117	9,589,427	57,374,455	6,003,024	178,312,412
Operating expenses:						
Interest on notes and bonds	128,723	31,154,376	4,412,893	36,956,109	5,201,306	77,853,407
Salaries and related employee benefits	8,399,965	—	—	—	—	8,399,965
General operating expenses	4,162,575	—	—	—	—	4,162,575
Note and bond expenses	166,726	—	—	—	—	166,726
Amortization of bond issuance expenses	2,750	29,516	10,309	18,801	9,326	70,702
Pass-through grants expenses	31,054,160	—	—	—	—	31,054,160
Housing Choice Voucher program expenses	17,969,629	—	—	—	—	17,969,629
External mortgage servicing expenses	183,723	—	337	—	—	184,060
Investment in rental property expenses	—	4,260,989	1,034,700	—	—	5,295,689
Losses and expenses on other real estate owned	24,227	33,843	552,735	13,423,445	32,888	14,067,138
Provision for loan losses	(906,746)	566,932	289,010	6,579,998	332,899	6,862,093
Total operating expenses	61,185,732	36,045,656	6,299,984	56,978,353	5,576,419	166,086,144
Operating income (expense)	(10,218,343)	18,332,461	3,289,443	396,102	426,605	12,226,268
Nonoperating revenues (losses):						
Investment income (loss)	(312,537)	65,711	20,411	6,866,565	79,930	6,720,080
Other, net	22,509	—	—	—	—	22,509
Total nonoperating revenues (losses)	(290,028)	65,711	20,411	6,866,565	79,930	6,742,589
Income (loss) before transfers	(10,508,371)	18,398,172	3,309,854	7,262,667	506,535	18,968,857
Transfers between funds	29,474,671	10,188,219	757,546	(41,905,387)	1,484,951	—
Change in net assets	18,966,300	28,586,391	4,067,400	(34,642,720)	1,991,486	18,968,857
Total net assets, beginning of year	153,913,783	628,000,194	163,645,311	1,360,246,967	12,376,829	2,318,183,084
Total net assets, at September 30, 2011	\$ 172,880,083	656,586,585	167,712,711	1,325,604,247	14,368,315	2,337,151,941

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

September 30, 2010  
(Unaudited)

Assets	General Operating Accounts	VHDA				Total
		Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	
<b>Current assets:</b>						
Cash and cash equivalents	\$ 637,649,950	146,629,607	38,758,243	207,791,825	323,524,160	1,354,353,785
Investments	3,442,722	-	-	-	-	3,442,722
Interest receivable – investments	363,597	50,557	31,940	316,227	11,199	773,520
Mortgage and other loans receivable	2,140,571	56,548,657	22,806,351	74,622,956	4,010,078	160,128,613
Interest receivable – mortgage and other loans	1,065,321	16,505,933	2,832,308	17,743,269	810,228	38,957,059
Housing Choice Voucher contributions receivable	12,837	-	-	-	-	12,837
Other real estate owned	356,961	125,000	2,311,148	33,107,656	-	35,900,765
Other assets	4,999,789	321,471	2,370,694	1,754,193	1,259,399	10,705,546
<b>Total current assets</b>	<b>650,031,748</b>	<b>220,181,225</b>	<b>69,110,684</b>	<b>335,336,126</b>	<b>329,615,064</b>	<b>1,604,274,847</b>
<b>Noncurrent assets:</b>						
Investments	73,324,385	1,265	920,348	66,187,460	-	140,433,458
Mortgage and other loans receivable	72,798,681	2,832,864,841	489,295,451	4,361,591,614	263,852,527	8,020,403,114
Less allowance for loan loss	3,417,124	52,869,863	11,468,503	47,297,484	396,737	115,449,711
Less net deferred loan fees	427,998	41,839,219	3,559,443	(16,513,904)	(1,720,542)	27,592,214
Mortgage and other loans receivable, net	68,953,559	2,738,155,759	474,267,505	4,330,808,034	265,176,332	7,877,361,189
Investment in rental property, net	751,982	47,346,056	4,181,776	-	-	52,279,814
Property, furniture, and equipment, less accumulated depreciation and amortization of \$27,556,610	8,701,649	6,738,989	8,658,537	-	-	24,099,175
Unamortized bond issuance expenses	388,792	2,460,873	1,409,839	1,251,859	789,978	6,301,341
Other assets	581,445	-	7,868	353,070	-	942,383
<b>Total noncurrent assets</b>	<b>152,701,812</b>	<b>2,794,702,942</b>	<b>489,445,873</b>	<b>4,398,600,423</b>	<b>265,966,310</b>	<b>8,101,417,360</b>
<b>Total assets</b>	<b>\$ 802,733,560</b>	<b>3,014,884,167</b>	<b>558,556,557</b>	<b>4,733,936,549</b>	<b>595,581,374</b>	<b>9,705,692,207</b>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
 (A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets  
 September 30, 2010  
 (Unaudited)

	General Operating Accounts	VHDA				Total
		Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Notes and bonds payable	\$ 406,390,000	103,850,000	11,365,000	174,448,350	8,000,000	704,053,350
Accrued interest payable on notes and bonds	53,216	40,954,465	6,367,130	48,261,589	1,181,797	96,818,197
Escrows	57,943,619	-	-	-	-	57,943,619
Accounts payable and other liabilities	7,968,296	406,247	110,863	8,611,365	-	17,096,771
Total current liabilities	472,355,131	145,210,712	17,842,993	231,321,304	9,181,797	875,911,937
Noncurrent liabilities:						
Bonds payable, net	-	2,314,469,870	386,254,484	3,093,568,997	581,996,746	6,376,290,097
Project reserves	180,776,730	-	-	-	-	180,776,730
Other liabilities	(7,678,188)	30,125,916	4,151,614	413,762	-	27,013,104
Total noncurrent liabilities	173,098,542	2,344,595,786	390,406,098	3,093,982,759	581,996,746	6,584,079,931
Total liabilities	645,453,673	2,489,806,498	408,249,091	3,325,304,063	591,178,543	7,459,991,868
Net assets:						
Invested in capital assets, net of related debt	8,365,713	1,115,099	(8,788,180)	-	-	692,632
Restricted by bond indentures	268,000	523,962,570	159,095,646	1,408,632,486	4,402,831	2,096,361,533
Unrestricted	148,646,174	-	-	-	-	148,646,174
Total net assets	157,279,887	525,077,669	150,307,466	1,408,632,486	4,402,831	2,245,700,339
Total liabilities and net assets	\$ 802,733,560	3,014,884,167	558,556,557	4,733,936,549	595,581,374	9,705,692,207

See accompanying notes to financial statements.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

Three months ended September 30, 2010

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	\$ 635,594	50,466,698	8,837,559	63,796,048	3,103,911	126,839,810
Pass-through grants income	45,876,753	-	-	-	-	45,876,753
Housing Choice Voucher program income	18,176,202	-	-	-	-	18,176,202
Investment in rental property income	-	2,463,216	664,816	-	-	3,128,032
Gains and recoveries on sale of other real estate owned	-	-	2,269	375,586	-	377,855
Other	2,050,855	294,682	282,570	381,735	-	3,009,842
Total operating revenues	66,739,404	53,224,596	9,787,214	64,553,369	3,103,911	197,408,494
Operating expenses:						
Interest on notes and bonds	238,744	34,000,486	4,963,033	40,131,734	2,838,859	82,172,856
Salaries and related employee benefits	7,663,944	-	-	-	-	7,663,944
General operating expenses	3,600,378	54,306	115,962	-	-	3,770,646
Note and bond expenses	(42,655)	-	-	-	-	(42,655)
Amortization of bond issuance expenses	6,500	122,340	11,583	21,095	6,337	167,855
Pass-through grants expenses	45,876,753	-	-	-	-	45,876,753
Housing Choice Voucher program expenses	17,257,237	-	-	-	-	17,257,237
External mortgage servicing expenses	35,111	-	2,536	284,676	-	322,323
Investment in rental property expenses	-	2,653,515	1,276,145	-	-	3,929,660
Losses and expenses on other real estate owned	42,556	482,941	312,978	5,334,926	-	6,173,401
Provision for loan losses	142,800	7,682,436	(575,382)	1,619,576	90,833	8,960,263
Total operating expenses	74,821,368	44,996,024	6,106,855	47,392,007	2,936,029	176,252,283
Operating income (expense)	(8,081,964)	8,228,572	3,680,359	17,161,362	167,882	21,156,211
Nonoperating revenues (losses):						
Investment income (loss)	(3,603,460)	4,810,904	39,893	1,277,115	184,297	2,708,749
Other, net	22,324	-	-	-	-	22,324
Total nonoperating revenues (losses)	(3,581,136)	4,810,904	39,893	1,277,115	184,297	2,731,073
Income (loss) before transfers	(11,663,100)	13,039,476	3,720,252	18,438,477	352,179	23,887,284
Transfers between funds	1,967,487	38,199,156	1,569,615	(43,303,016)	1,566,758	-
Change in net assets	(9,695,613)	51,238,632	5,289,867	(24,864,539)	1,918,937	23,887,284
Total net assets, beginning of year	166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055
Total net assets, at September 30, 2010	\$ 157,279,887	525,077,669	150,307,466	1,408,632,486	4,402,831	2,245,700,339